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With The Editors

Confidence Plus

LACK of confidence is the reason given for the failure of the capital goods industries to revive. Business men, we all say, are afraid of the currency situation, the terrific national debt, heavy if not unjust taxation to come, threats to the profit outlook from various quarters. Building a new factory or installing new equipment has always been a speculation, and lately the adverse possibilities have been of the numbing sort, the more dreaded because they are unknown quantities which no one can measure as a definite part of the business risk.

There is, however, a powerful offsetting force to the timidity toward expansion. It will make itself increasingly felt as time goes on, for it springs from a fundamental law still on the economic statute books—the law of supply and demand. Men will overcome their fears and find a way.

The best idea of what we mean can be conveyed by examples. Why did the steel industry, in spite of the general misgivings, spend hundreds of millions in the last few years on new plants and equipment? Or the paper industry—why all the new plants through the South? The chemical industry? In each case the demand for a new, a better, or cheaper product was strong enough to overcome a low stage of confidence.

What this proves to us is that when mistrust of the future gives way to more normal conditions, the wave of capital expenditure will be very selective and irregular. Where the demand actually exists the response will be strong, but not otherwise. If rail traffic and earning conditions warrant, the roads will be large customers for equipment; if the farmer wants and can pay for new machinery, productive capacity will be provided. Demand must appear or confidence will be barren.

To the investor this thought will have a meaning. He will see the importance of going back to old principles, judging the future in terms of potential markets and profit margins, rather than political developments. He will be impressed by the importance of timing in this matter of building for a demand yet to come. Obviously, the companies which have already done so have bought in a buyers' market and are ready to take immediate advantage of business improvement. Provided they are correct in their expectations, the managements have been smart in one of their most vital functions. At the other extreme will be those companies which remain skeptical of the future too long and become persuaded at the next peak that expansion is the thing.

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* * * IN THE NEXT ISSUE * * *

Annual Dividend Forecast

(Part I in This Issue)

Part II in the Issue of February 11

Movies Liquors Motors and Motor Accessories Packaged Foods
Meat Packers Sugar Tobacco Chemicals Tires

Part III in the Issue of February 25

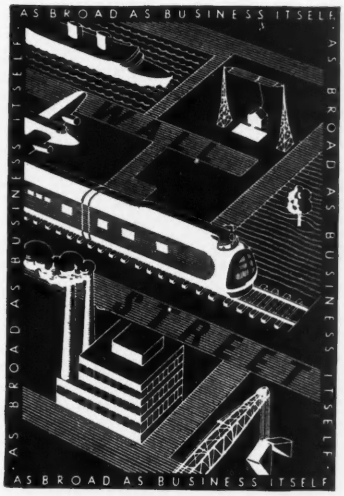
Railroads Aviation Building Chain Stores
Department Stores and Miscellaneous Specialties

Charles Phelps Cushing

The tide which has set so long against the utilities has begun to turn. Easing of political pressure is important not only to the power industry and its thousands of investors, but, in view of the great potentialities for expansion of facilities, to business as a whole.

THE MAGAZINE OF WALL STREET

E. KENNETH BURGER, *Managing Editor* : C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Associate Editor*



The Trend of Events

THE WAY OUT . . . The Eccles-Byrd debate on New Deal fiscal policy leaves us cold. Neither gets down to practical reality. In principle the Senator is right, the Governor of the Reserve Board wrong. Deficit spending cannot restore a normal national income. If the present deficit of three or four billions were a blessing, a deficit of ten or twenty billions would be a greater blessing. That is absurd. But both men debate the issue as if the Administration had a choice between spending nine billions a year—of which more than three billions are obtained by inflating bank credit—and spending less. It has no such choice.

The cold fact is that six years of lavish deficit spending have created vested political interests which no democratic regime can uproot. No really substantial Federal economies are possible, and we shall see relentless pressure for still further extension of paternalistic social services.

Only one realistic course is open to us, if the capitalist system is to survive. The best minds at Washington should concentrate on the formidable problem of holding the budget where it is for a considerable time to come, while simultaneously finding ways of inducing a maximum revival of private enterprise. The latter is our most crucial problem and it is here that the New Deal has dismally failed.

For six years we have had more government than ever before—and less per capita business activity than in several decades. For every problem: pass a law, issue an administrative order, borrow some money. All too many of our New Deal gains are paper profits, more form than substance. There is no ultimate economic security or stability save in terms of goods and services produced. Prosperity and a national income big enough to support a balanced budget of eight to nine billions cannot be written on the statute books or ordained by Federal bureaucrats. Only private initiative can do this job.

The monopoly committee is asking $2,000,000 for continued investigation of what is wrong with business. Congress and the Administration might far better investigate every conceivable method by which resumption of private investment can be encouraged and positively stimulated.

THE SAFEST PLACE . . . It may be that Europe is doomed to war, but between spasms of alarm we might take time out to recollect that the history of mankind is replete with crises surmounted, that business and trade went on while every major nation was involved in the greatest of all wars within the period 1914-1918, and that the United States is strong enough to ride out any world storm without disaster. Money talks, and world money —in record breaking migration to this country—is saying that this is the safest of all nations.

Huge gold imports reflect both the strength of our

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Thirty-One Years of Service"* — 1939

position in world trade and the security of our position in world affairs. Gold imports in 1938 reached an all-time high of $1,979,000,000. More than 75 per cent of this movement was concentrated in the last four months of the year, reflecting increasing fear in Europe. From present indications January will show gold imports in excess of $100,000,000. Our merchandise exports in the year recently ended showed a favorable balance of approximately $1,100,000,000. The dictators sneer at our gold and our trade, but would give their eye teeth to get more of each.

For the past five years gold has come to this country at an annual average rate of more than $1,500,000,000. In a frightened and uncertain world gold does not move to a weak country. Europe is bearish on itself, bullish on America. The faint of heart should keep that in mind.

STOP THE SILVER FARCE . . . The absurd silver-buying policy foisted upon us by the silver-state politicians has achieved not a single one of the beneficial results promised by its sponsors. It has generously subsidized not only our domestic silver producers but the silver producers of the entire world, thereby making the United States a dumping ground for increasing stores of a metal for which we have no earthly need. The ultimate folly of this program is our continuing subsidization of Mexican silver, while the Mexican Government thumbs its nose at us by expropriating American-owned oil, bartering such oil for German goods and moving ever further into the trade orbits of the Fascist countries.

Ironically, the conduct of the Mexican Government has done more than anything else to discredit our silver policy. There are signs that Congressmen from silver-producing states see the handwriting on the wall for their cherished scheme and that they will probably take the initiative in moving to revise the law so as to continue the domestic subsidy but abandon purchases of the metal from foreign countries. There is no justification for any silver subsidy. Yet if it is not politically possible to drop it, it will at least be a step in the right direction to limit it to the United States.

ENDING TAX-EXEMPTION . . . This publication believes that tax-exemption of government bonds is wrong in principle and undesirable in effects, and that the incomes of employees of government should be subject to the same taxation as those derived from gainful private occupations. For both reasons we give 100 per cent endorsement to President Roosevelt's special message calling upon Congress to end such tax-exemption.

Mr. Roosevelt made the same demand last April but Congress, busy with controversies of greater public interest, chose to dodge it. Pressure of time will not be adequate excuse this year. If no action is taken it will be because Congressmen insist on keeping their own salaries exempt from state taxation and because the reform is bitterly opposed by the great majority of state and municipal officials and employees. The millions on state, county and municipal payrolls don't want anything to do with Federal income taxes; and local governments don't want to give up the privilege of borrowing at the relatively low interest rates commanded by tax-exempt securities.

Ending tax-exemption would not have any very startling fiscal and economic effects but at least in worthwhile degree it would increase the Federal revenues, tend to restrain debt-expansion by local governments and tend to put investment capital into more productive employment.

ONE BUSINESS INDEX . . . From various regularly published statistics we can keep close watch on production, but we have much less complete information regarding ultimate consumption. As a broad indicator of consumption probably the best available guide is had in the banking figures showing debits to individual accounts, as these figures reflect total spending activity. Such debits over the past several weeks have shown a gain of about 4 per cent over a year ago or considerably less than the gain in industrial production.

But weekly fluctuations are erratic and accurate use of debits as a measure of business requires that the figures be put in the form of a moving average covering a considerable number of weeks and that allowance be made for seasonal fluctuations—all of which is too complicated for the layman. Excluding New York City, so as to eliminate major influence of security transactions, debits to individual accounts in 140 leading cities for the ten weeks ended January 11 averaged 3.9 per cent less than a year ago. Yet the spending trend is pointing upward. For example, the three months August-September-October showed debits about 12 per cent under a year ago and through last spring the level averaged some 18 per cent under that of the spring of 1937.

Broad changes in the country's total spending, excluding security transactions, are never as fast as changes in industrial production, and the same is true of national income and consumer purchasing power. As compared with periods of normal good times in the past, such as the years 1923-1925, American spending has been somewhat subnormal even at the highest levels of recovery reached in 1937. In relation to business potentialities, however, this deficiency is considerably less important than the great lag in private long term investment since 1929. The difference between real prosperity and what we have today is chiefly a matter of normal activity in capital goods and the key to this is capital investment.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 412. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue.

Monday, January 23, 1939.

As I See It!

BY CHARLES BENEDICT

THE RUSSIAN MYSTERY
or
NO MAJOR WAR LIKELY THIS SPRING

EVENTS are moving fast and furiously to a new climax in Europe—with German mobilization of various branches of the military set for February 5 and one psychological bombshell after another being exploded in rapid succession to shatter the nerves of their opponents. Even despite the apparent victory of the extremists in Germany, I do not believe there will be a major war.

We are witnessing the familiar Nazi technique of aggression without war. And again it is directed at England—note the calculated blow of Schacht's removal with its certain financial repercussions (already evident by the decline in the London Market), Nazi demand of U-boat parity with England, restoration of the domination of the radical S A (Storm Troopers) by the new plan to create a huge army under its command.

All these manoeuvers are designed to give Hitler another bloodless victory by upsetting English balance through new fears just as they are reorganizing their forces to combat Nazi bluff and economic aggression. To make the sequence of procedure perfect, there should come next the perennial demand by Dr. Funk for the return of the African Colonies.

What is Hitler up to?

Because Hitler is no god, we can follow his mental gyrations logically if we keep in mind: (1) his *objectives*, which are the raw materials and vast undeveloped markets of Russia; (2) his main *obstacle*, which is Stalin; (3) his *necessities*, wheat and oil, as well as the establishment of a base of operation in accordance with his well known ambitions.

Because his necessities come first, he must secure both Rumania and the Ukraine — or Rumania at the very least.

With Russia as his main obstacle, he must either be prepared to fight a winning war, or make a deal with Stalin that will give him what he wants without war.

Hitler's way would be to manoeuver himself into a strong position and then strike a deal. And everything points to the fact that he has already done so—that he will solve his problem of wheat and oil without a major war.

First, he has evidently prepared the way in Middle Europe. In spite of the struggle these small nations have made to retain their independence, he has been overcoming them one by one through terrorism, by stirring up minority rebellion, political sabotage and through their economic necessity.

For, while the conquest of Czechoslovakia gave the Nazis a corridor leading *directly* to the granary of the Ukraine, and *southerly*, to the oil and wheat of Rumania, it has one serious difficulty. It runs through a country devoid of suitable roads and (*Please turn to page* 463)

Outlook for February Market

Although further reaction is possible, we believe the major portion of the war-scare decline has already been seen. For intermediate and longer range purposes, the market is in a buying rather than selling range.

BY A. T. MILLER

THANKS to modern communication and a super-abundance of experts on international affairs, we now know all about the next European war before it happens, including the exact starting date, which—by consensus of customers' men—is April 1 or April Fool's Day.

This permits us to indulge in a magnificent dose of the jitters and a severe stock market decline well in advance of the war which is once more going to wipe out civilization. We have been making psychological preparation for this war for a good many months. It can't surprise anybody who reads the daily newspapers. Unlike the pre-Munich situation, in which the stock market had been made technically vulnerable by the great June-July advance, the market has been fortifying its technical health with months of cautious trading-range fluctuation.

Nevertheless, at this writing the industrial average has declined from the November high by 10.7 per cent and has penetrated the November-December resistance level by a decisive margin. In the over-due summer reaction, climaxed in September by hysterical fear of an imminent war involving Britain and France, the total decline in the same index was 10.8 per cent. The outbreak of the World War in 1914 dropped the industrial average by approximately 11 per cent—and the resultant temporary lows were not seen again for a period of years.

Thus, reaction in leader type industrials to date is comparable with that which accompanied last summer's war scare and with that which accompanied start of the World War. Since the coming war is still a matter of conjecture rather than certain fact, the market's recent performance doesn't speak very well for the state of our nerves or our reason.

We know that the market is thin and that a volume of frightened selling, which would have been considered small a few years ago, can play havoc with prices—temporarily. We know that as war fears increase, further decline is possible; but we are confident that the major portion of this war-scare reaction has already been seen, with the market near 141 Dow-Jones as this analysis is written. Whether the absolute low turns out to be 140 or 138 or even a few points less, we believe that for investment and intermediate term purposes the market is now in a buying rather than a selling range.

Although all markets have felt the shock during the past few days, the general picture is not yet as dismal as would be suggested by looking only at the industrial average. For some weeks the action of utility and rail issues and of secondary industrials has been superior to that of the industrial average. It still is, for with leader industrials under their November lows, the rail and utility averages up to this writing remain above their previous lows.

Of greater long range significance, in our opinion, has been the recent evidence of persistent investment demand for bonds, preferred stocks and for the small minority of common stocks affording both secure and attractive dividend yield. In the fortnight prior to the present acute attack of speculative nerves, Government bonds and a fair number of gilt-edged corporate bonds reached all-time highs. Indeed, looking at securities whose appeal is primarily to the investor searching for income, the picture over the entire period from the November election to date is wholly different from that given by speculative stocks and is reassuring rather than otherwise. The stock market as a whole is back where it was last July and is well under its recovery high of November. If we had an index of investment demand for income securities it would be seen that this reached a new recovery high during the first three weeks of January and is right now not importantly under such high.

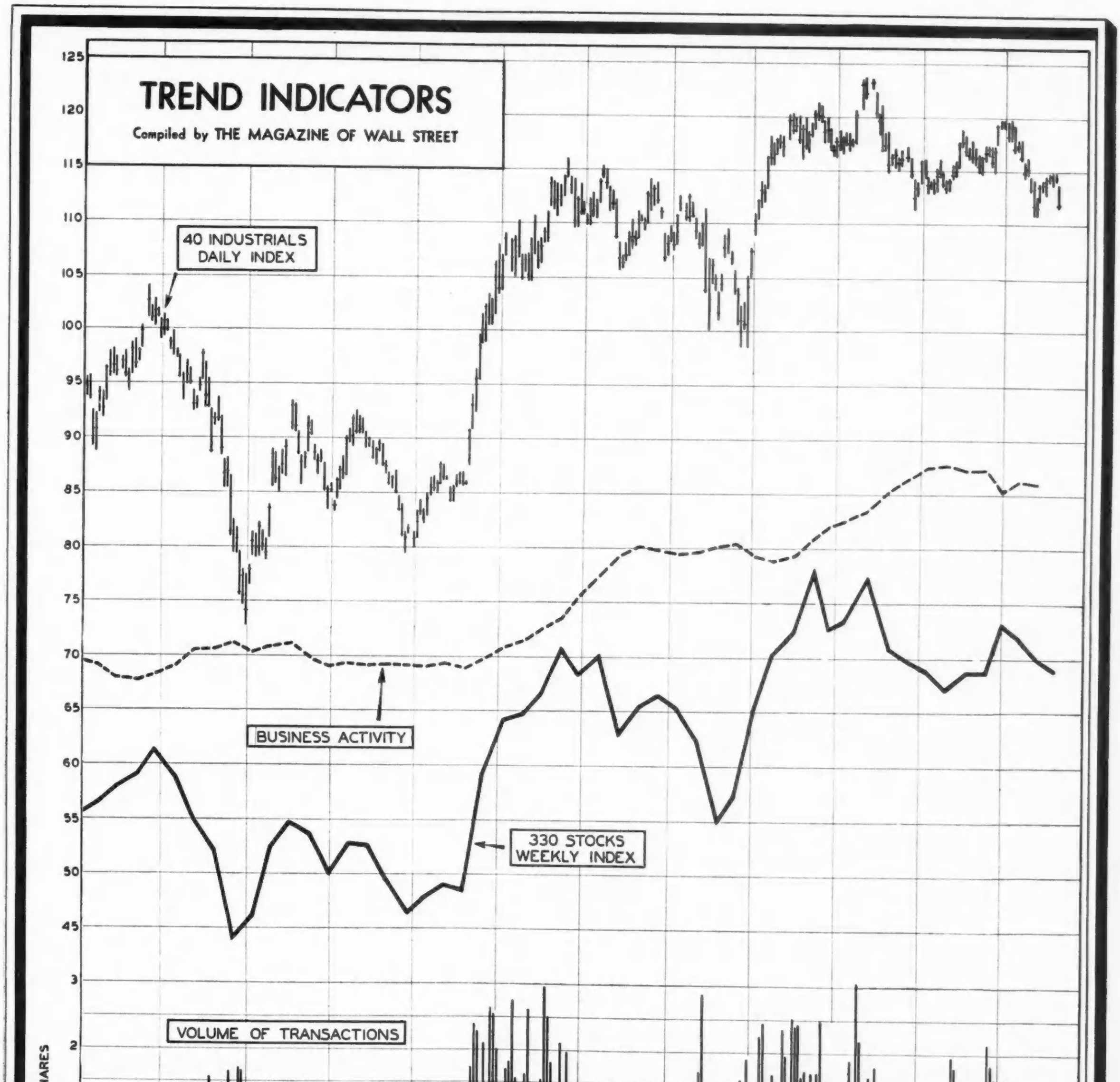
While investment demand cannot be immune to the war scare and to serious market unsettlement, we make the point here that the basic factors responsible for such demand, as evidenced just prior to the present interruption, are of greater long range significance than the war scare or than even actual outbreak of war. Where investment leads, speculation will eventually follow. In this connection the lesson of 1934 seems pertinent. That was a year of doubt and pessimism in the stock market, comparable in many respects to the period of transition

through which the market has been going for the past six months. There had been a spectacular advance, culminating in July, 1933. It was followed by severe reaction, then relapse into the long trading range which was not broken on the upside until the spring of 1935. In broad technical aspect, quite aside from the war scare, the performance of the past eight months has been similar to that from the spring of 1933 to the forepart of 1934.

Throughout 1934 investment securities were in a one-way bull market. Then, as on many prior occasions, the bond market foretold the later rise in business and in speculative securities. We see no reason whatever for supposing that the present transition phase, already some six months old, will remotely approach the twenty-two months that the market spent in trading range fluctuation between the high of 1933 and emergence to a new high in 1935. On the contrary, barring actual outbreak of a war involving Britain and France, we think there is better than even chance that our recovery movement will get under way again during the spring season.

We see none of the earmarks of a bear market even in speculative stocks. We expect to see renewed earmarks of a bull markt in investment securities on any let-up in the immediate tension centering on European affairs. Meanwhile our index of business activity is less than 3 points under the recovery high, holding better thus far than at this season in any one of the past several years.

—Monday, January 23, 1939.



Slow Revival Thus Far in Capital Goods Is a Restraining Factor But There Is Major Promise of Economic Stimulation in Building and Consumers' Durable Goods

The Base for 1939 Prosperity

BY FRANK R. WALTERS

FROM October thus far into January the composite business picture has been generally similar to that at the same season of 1935-1936 both in trend and level. After climbing to high of 88 in mid-December our seasonally adjusted index of per capita business activity has now dipped to estimated figure around 86. Three years ago the December high was 88.7 and was followed by recession to 80 in mid-January. Comparative analysis of the two periods—and especially the differences in relative positions of the major individual components of business activity—throws revealing light both on the near term prospect and the general 1939 potentialities of economic progress.

The most significant difference between the present recovery movement and the similar movement of three years ago is the tremendous gain in construction. A large and rising volume of building is not only a major contribution to business activity but is also a stabilizing influence. For instance, a recovery which is getting dynamic support from building and the automobile industry will be not only more vigorous but more orderly than a recovery in which the motor industry pulls the heaviest load while construction lags.

Relatively speaking, motor production was a less dynamic factor in the business advance during the closing months of last year than it was in the same period of 1935, while the reverse was true of building. This is by no means a mere statistical curiosity. It augurs well for a larger and more stable level of business during the present hesitation in the recovery cycle than was the case at this season three years ago, especially if there is no repetition of the serious floods which lowered business activity sharply in the early weeks of 1936. As above noted, mid-January, 1936, found the composite index 8.7 points — or nearly 10 per cent — under its December high, against net reaction of approximately 2 points to date from the December high.

Moreover, in the forepart of 1936 the business trend was down until the third week of February, with the index reaching a low of 72.2—or 18.6 per cent under the December high—after which sustained advance was resumed, with notably sharp March-April gains. Barring the improbable shock of major European crisis during the next few weeks, all available evidence indicates that the present recession will be much less sharp than that in the early weeks of 1936, that it will not be longer in duration and that it probably will be shorter.

It is mainly due to radical improvement in the volume of construction that both near-term and longer term outlook is now brighter than at this stage of the recovery cycle in progress three years ago. Examination of the individual indexes brings out this fact very clearly. For the latest week reported the seasonally adjusted index of automobile production is a bit lower than it was at the same time in 1936; the index of steel output is almost exactly where it was for the same week of 1936; the index of railroad car loadings is a trifle lower; the erratic index of cotton mill activity is substantially higher—but the seasonally adjusted index of construction awards is more than 35 per cent above the comparable 1936 level.

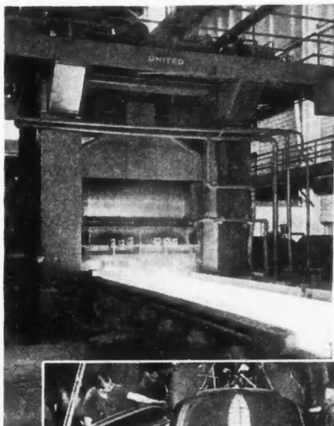
Indeed, building volume, with allowance for seasonal factors, is now higher than at any time since June, 1930, which, of course, means substantially higher than any point reached in the upward business cycle which ended in 1937. Among key industries, the lag in construction was the greatest deficiency in the first New Deal recovery. The improved building outlook is the strongest single base for hope that the present recovery movement will prove to be greater in scope and duration than that of 1935-1937.

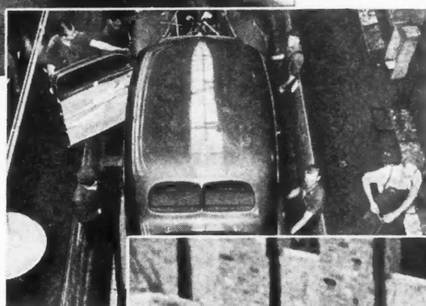
Not Far to 1937 Average

At a time when many observers, for reasons not clear to the writer, are skeptical of the business prospect it is pertinent to note that our per capita index *now* is at a level nearly 5 per cent above the average for the first half of 1936 and less than 8 per cent under the average for both the second half of 1936 and for the full year 1937. This is with revival in capital goods barely started, with motor production somewhat under estimated normal and with the steel industry operating at only 52 per cent of capacity. In this setting, with business opinion leaning notably toward the cautious side, we have a strong suspicion that the greatest potentiality for surprise in the months just ahead lies in a business performance

substantially better than is now generally expected.

Due both to continuing rise in building awards and increasing structural activity flowing out of awards made in the closing months of 1938, maximum economic stimulation from building still lies ahead. In recent weeks retail demand for automobiles has been strong enough to suggest the probability of at least moderate rise in the adjusted index of motor production over the next several months. Orders for machine tools and for electrical, industrial and railroad equipment are showing modest improvement, suggesting that by mid-year volume in capital goods is more likely to be higher than lower. The steel industry for the first half year should certainly average moderately better than the present performance. At worst, the consumption goods industries should hold the present level and may do a bit better.





Putting all of this together it does not appear over-optimistic to estimate that the per capita business index in the first half of the year should average around 88 to 90 per cent of the 1923-1925 level. This would be from 7 to 9 per cent above the average in the first half of 1936, a bit above the full year average of 1936, some 25 to 30 per cent above the first half of last year and only 4 to 6 per cent under the average of 1937.

While business volume for the full year 1939 will almost certainly fall somewhat short of that of 1937, there is a distinct possibility that it will come closer to the average level of 1937 than to that of 1936—but this, of course, will depend on second half-year developments which from this distance are far less subject to rational forecast than the outlook for the first half year. It will depend chiefly on a continued favorable level of construction and upon broadening activity in total output of durable goods, including the important producer goods division.

It would be rash to venture anything approaching specific forecast for the second half of the year, but certainly the visible basic factors seem to point in the hopeful direction rather than the reverse. For instance, an upward cycle of building in the past has usually been a cumulative force which persisted for a matter of some years. Even disregarding the abnormal stimulus of public works, the 1937-1938 decline in private building was so small as to suggest a reaction in—rather than a basically significant reversal of—the major cycle of building expansion which started early in 1935 and which, if past history is any guide, is likely to run well into the 1940's.

Moreover, there is always a considerable lag between a building contract award and the actual work of construction and this is notably so of public works and other large scale projects. This means that out of the heavy awards made in the closing months of last year and out of indicated further rise in awards over the next several months there is certain to come a major contribution to industrial activity throughout the second half of the year. It would not be suprising if actual structural activity—which relates more directly to demand for materials and labor and to the movement of freight than do contract awards—is larger in the second half of the year than in the first half.

After severe depression it is not to be expected that demand for producer goods can quickly recover to normal levels. There is always a recovery lag here. This is not so much a matter of "long term confidence"—much abused words—as the relationship between plant capacities and prospective near term orders. It was demand approaching capacities, plus competitive compulsion—rather than long term confidence in the politico-economic outlook—that induced such industries as chemicals, paper and steel to make heavy expansion and modernization outlays in the 1935-1937 period. The present domestic political outlook, from the point of view of business men and investors, is more favorable than at any time in many years. This is the first period since the crash of 1929 in which the direction of American political sentiment is definitely away from the Left. We can logically expect it to have cumulatively beneficial results, judging by the trend of affairs in Congress to date. No doubt we shall have to wait a while for the upward spiral in building and in demand for consumer goods to impart important vitality to producer goods. Yet total business investment in capital facilities — always financed more largely out of surplus earnings and depreciation account than out of security flotations—has unquestionably put bottom behind, the trend of such investment is up and we see no reason why it should be seriously reversed this year.

Next to building, the most important factor in the 1939 business picture is prospective demand for consumers' durable goods, such as automobiles and all of the familiar types of household apparatus and equipment. So far as the governing consideration is consumer purchasing power, such demand ought to be relatively good. The latest available monthly estimate of national income and of payments to employees, together with the indicated trends of industrial activity and payrolls, suggest a better than even chance that aggregate money income of consumers this year will equal or slightly exceed that of 1937. Since the cost of living is likely to average somewhat less than in 1937, actual consumer purchasing power this year should reach the highest level in a good (*Please turn to page* 460)

What Will Be Inflated—If Anything?

Analysis of Three Inflations Since the World War Provides the Clue

BY JOHN D. C. WELDON

The charts on the opposite page show three periods of inflation since the World War and the beginning of a fourth period.

It is too bad there is no simple, yet accurate, substitute for this evil-sounding and confusing word "inflation." Too many alleged experts have dangled it before the eyes of investors as if it meant only the German type of post-war nightmare—collapse of government credit, worthless paper currency, soaring cost of living, destruction of fixed-income investments. To give it this meaning with respect to our prospect is ridiculous.

For example, during the period in which the Roosevelt Administration has doubled the Government debt and "inflation talk" has been more prevalent than ever before, a net total of $7,575,000,000 of gold has come into this country from abroad. Capital does not seek refuge in a weak currency. Even if Mr. Roosevelt wished to inflate the dollar by currency "tinkering" aimed at raising the price level—an expedient already proved of no lasting effectiveness—the gold reserve back of our currency is so huge that it would be extremely difficult to scare people out of dollars into goods and equities.

Varying Effects

The simple truth is that there are various possible causes of inflation, various possible effects of inflation and various possible combinations of causes and effects. In modern times the only inflations in this country which have vitally affected the welfare of investors, and others, have been bank credit inflations. It is this kind of inflation that confronts us now. As far ahead as anyone can see, it is the only kind of inflation that need concern us. In older days we called it "prosperity."

Quite logically, investors—as well as business men, workers, consumers—are far more interested in the effects of inflation than the causes. The precise combination of air currents out of which a hurricane originates may be of academic interest but the important thing is that houses get blown down.

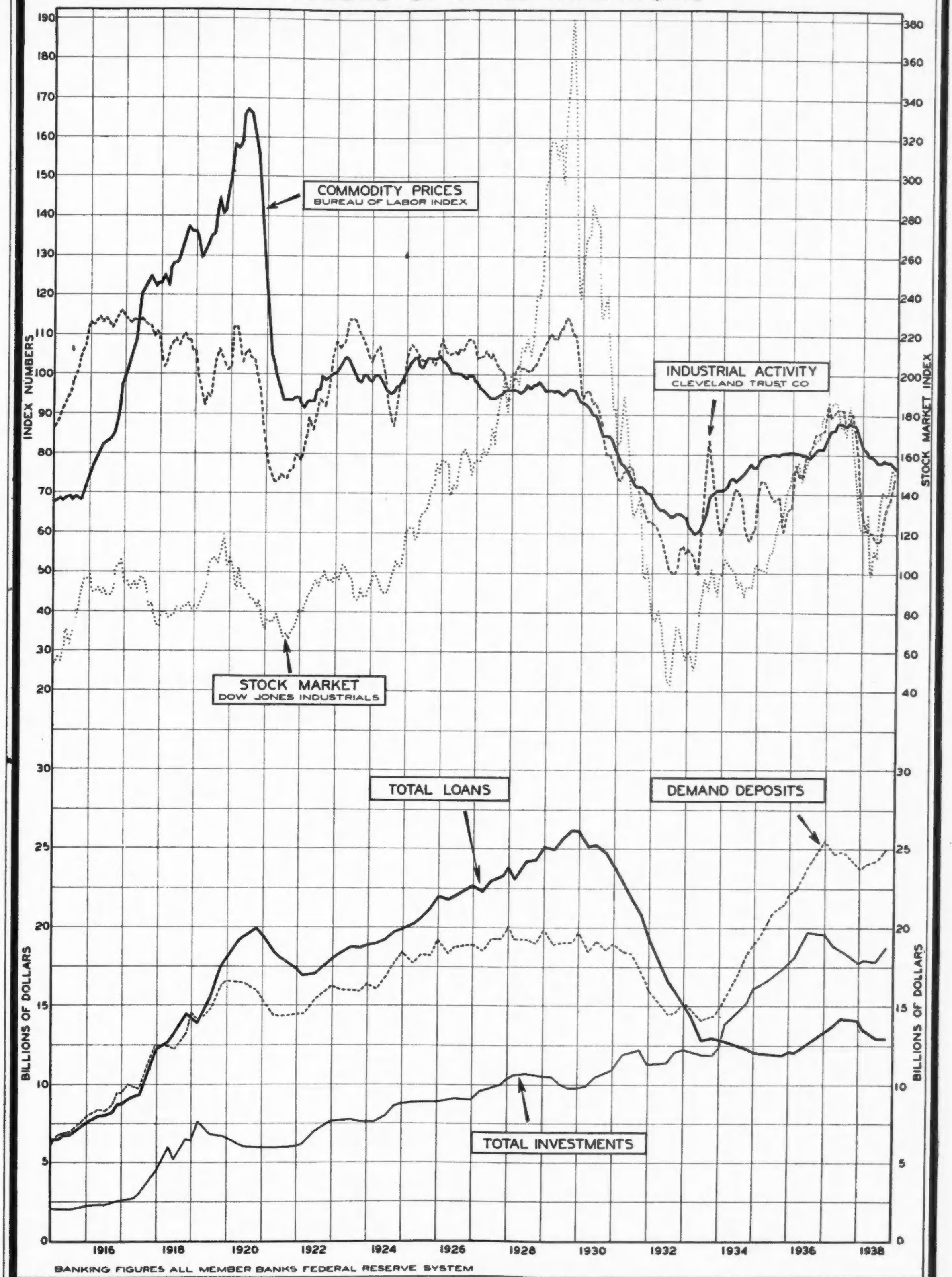
There is no automatic or mechanical relationship between the causes of bank-money inflation and the effects because non-monetary factors—such as economic supply-demand relationships and human psychology—at all times enter the equation. Brief review of the inflations of the past generation is helpful as illustrating how many different effects and combinations of effects can accompany the one central phenomenon of an expanding supply of bank money. In one of these inflations the most spectacular effect was a rise in commodities; in another it was a rise in common stocks and in the third the greatest abnormality was the heights reached by gilt-edged bonds.

In the period from the first year of the World War to the spring of 1920 we had, of course, the typical inflation that always grows out of major and protracted war. But, contrary to popular impression, it was not a period of uniform or parallel boom in prices, business and the stock market. By the end of 1915 industrial stocks had advanced about 80 per cent and industrial production had risen from 86 per cent of computed normal to 113 per cent, while the wholesale price index had advanced but slightly. But from 1916 to the top of the immediate post-war spree the commodity price index soared 125 per cent,—with the cost of living mounting rapidly—with the industrial production index making no further gain, with railroad stocks in a bear market and with industrial stocks making a 1919 peak only 20 per cent above that of 1915 after going through a complete bear cycle of nearly 40 per cent decline in the year 1917.

During that inflation period rising interest rates began to hit the bond market late in 1916, from which time to mid-1920 corporate bonds declined about 25 per cent and municipals about 20 per cent.

The entire period was one of major bank credit expansion, with especial rapidity in 1917-1918-1919. At their respective peaks in that cycle loans of all member banks of the Reserve System had increased by more than $13,000,000,000, investments by more than $5,500,000,000 and net demand deposits by more than $10,000,000,000. Note that in that period loans were by far the most dynamic factor in bank credit changes—in striking contrast to the present picture—and that for the last year of the commodity price rise banks were liquidating investments in order to meet the demand for loans to carry boom-priced inventories of goods. As part of the infla-

A RECORD OF THREE INFLATIONS



tion picture of that period, it may be noted that the war years 1915-1918 produced gold imports in excess of $1,150,000,000. Total gold reserve of the Federal Reserve System was $1,822,000,000 in January, 1915, and $3,162,-000,000 by January, 1919. (Our gold reserve today is fast nearing the $15,000,000,000 level.)

Following this post-war "inventory depression" easing interest rates provided the first sign of clearing monetary skies. The corporate bond market turned up in mid-1920, ten months ahead of industrial production and the stock market, and about eighteen months before commodity prices made bottom. Reflecting easy money, the bull market in bonds persisted until the early months of 1928, with eight-year rise of about 33 per cent in the Standard Statistics index of 45 corporate issues. Contrary to the general impression the major advance in production came between the spring of 1921 and the spring of 1923, with advance from 73 to 114 in the Cleveland Trust index, which is adjusted both for seasonal factors and secular trend. The latter figure was not importantly bettered at any time in the following years through 1929. These facts are interesting—and pertinent to our present situation—in showing that fast advance in the production index is characteristic of the first phase of recovery from depression and that a sustained high level of production is all that is needed for spectacular expansion of corporate earnings.

Inflation in the Twenties

At no time in the period 1922-1925 did the commodity index rally more than 15 per cent from its depression low and from late 1925 to the stock market crash in 1929 it was pointing gradually downward.

On the monetary side, we came out of the post-war depression with demand deposits much more than double the immediate pre-war level, with an inward movement of gold continuing to expand our credit base, with what we thought to be a radically improved system of central banking credit management, and with a politico-economic setting conducive to a quickening tempo of spending and long-term investment in expanded capital facilities. Both in dollar volume and percentage, the actual bank credit inflation was less spectacular than that of the war period. Taking call dates, net demand deposits of member banks expanded only $5,476,000,000 from the 1921 low to the end of 1929. Over the entire period the maximum expansion of member bank loans was about $9,000,000,000 and maximum increase of member bank investments about $4,600,000,000, again taking call dates. Throughout the period, bank loans exceeded investments by more than two to one.

Probably the outstanding monetary abnormalities of the '20's were the record velocity of bank deposits and progressive deterioration of the quality of bank credit. Unprecedented extension of loans for carrying securities —brokers' loans attained a peak above $8,000,000,000— and heavy bank investments in bonds of less than prime quality set up the house of cards.

In the spring and summer of 1933 we had a few months of "psychological inflation," with active buying of goods and common stocks because people thought there was going to be inflation. They were right for the wrong reason. We got the one kind of inflation that was least talked about while Roosevelt was toying with the "commodity dollar" idea. On balance 1933 was a year of *deflating* money supply. There was an inconsequential increase in bank investments, a decline of $1,360,000,000 in loans and discounts of member banks, a small decline in demand deposits and a moderate decline in the monetary gold reserve. The New Deal bank money inflation began in 1934—when few people were talking inflation— as Mr. Roosevelt discarded his balanced-budget idea and began the era of deficit-financed pump priming. The economic effects began to show up importantly early in 1935, with sustained rise in business activity and stock prices.

In the general discouragement of 1934 most people failed to note that year's strong advance in bonds. It foreshadowed the 1935-1936 advance in business and the stock market, as the bond market had done in 1920-1921. Both prime bonds and the Standard index of 45 corporate bonds reached levels, late in 1936, substantially above any prices seen in the '20's and, indeed, the highest levels in nearly half a century. Per capita industrial production at the high did not exceed 85 per cent of its peak in the '20's, while the corresponding figure for the commodity index was 88 per cent. At the top the Dow-Jones industrial stock average had recovered only a bit more than 50 per cent of the 1929 peak level, but did equal the level of early 1928.

On the monetary side the significant difference between the first New Deal inflation and the two preceding inflations is that bank investments have become the dynamic credit factor rather than bank loans. Total investments of reporting member banks now exceed total loans by about 61 per cent.

Bond Liquidation

Liquidation of some $2,000,000,000 in bank investments, beginning late in 1936 after the Reserve Board "put on the brakes" by raising reserve requirements, played an important causative role in the financial and economic deflation from which we have recently emerged. While approximately half of this decline in investment holdings has been made up, adjusted demand deposits have again climbed to an all-time high due to release of previously inactive Treasury gold and to the huge inflow of foreign gold over the past year.

There is nothing vulnerable in the bank loan position. As far ahead as we need look, the vulnerability of the investment account is a matter of Administration credit policy only. It seems improbable that the Reserve Board or the Treasury will take control action any time soon to limit or reduce the potentiality of bank credit expansion, but in reference to money supply this is the thing to watch.

It need hardly be said that the effects of an inflating supply of bank money depend largely upon the use made of such money, and this is only partially the option of Government management. The rate of total spending and long-term investment in recent years has been far under that in past periods of prosperity. It is now gradually improving but is still sub-normal. The ultimate effects of the present inflating money supply depend mainly upon how soon confidence in the politico-economic outlook becomes strong enough (*Please turn to page* 460)

A New Future Dawns for Oil

Control of Production by Interstate Compact and Control of Refining by New Houdry Process Means Larger and More Stable Profits

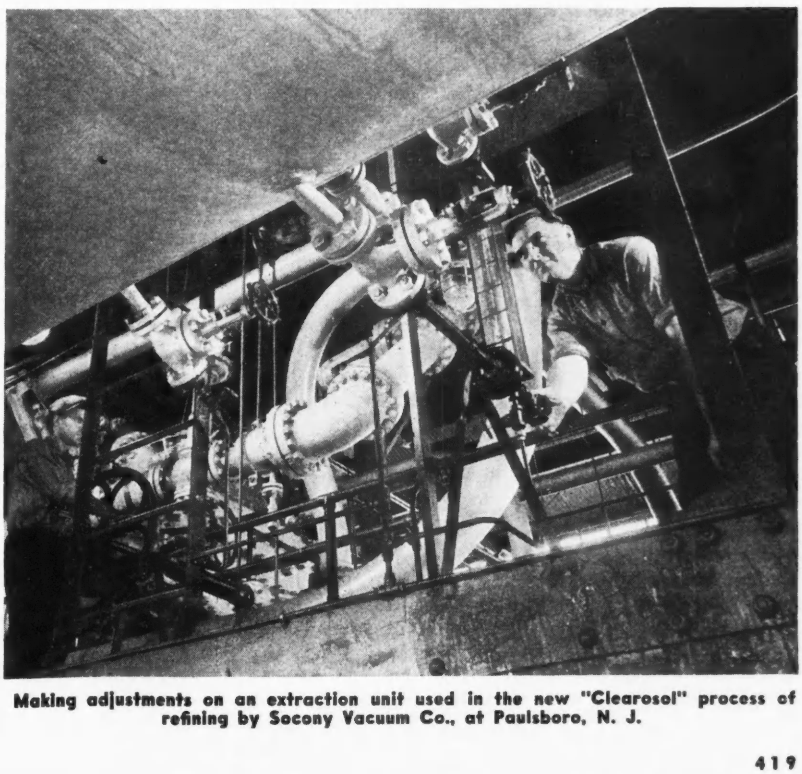
BY BARNABAS BRYAN, JR.

WHEN the Interstate Compact for the conservation of crude oil is renewed and extended later this year, to include all producing states, the oil industry will be all set and ready for a period of increased earnings and will make a large contribution to general prosperity. The President has already given his approval; his son, Eliott, has gone even further; some important Democratic states are strongly in favor of it. Conservation is also good Republican policy, and the need of production control is self-evident. Each cent per barrel taken from the price of crude oil means the loss of more than $11,000,000 per year of new purchasing power in the country.

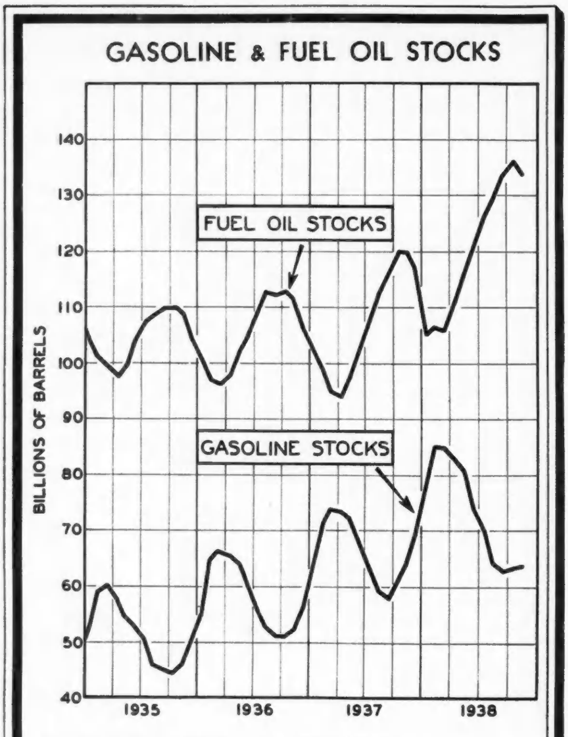
When the Compact to reduce waste and pro-rate crude production was formed and conservation laws were passed in several states, there were notable exceptions, which should have been included, but which were not of compelling importance at that time. The increased price of crude oil led to more intensive prospecting for new fields, and the new discoveries gradually changed the entire picture. New production was opened in Louisiana, Michigan and Illinois where there was no proration. Some of these new fields are being produced as in the olden days with vast wastage of gas and oil.

Conservation in the production of crude oil is profitable regardless of its effect on the price of oil because it enables us to recover by natural means a much higher percentage of the oil in the ground. When wells are produced wide open, the quantity of gas blown into the air is tremendous. That gas represents waste of the energy which causes the oil to flow to the oil well. If the gas is held back by modern engineering methods, we get much more oil per cubic foot of gas and also keep the oil remaining underground more fluid, so that it can be ultimately recovered. But the land owner becomes like the typical "newly rich" when oil is discovered under his land and wishes to convert all of his oil into cash today, rather than get twice as much oil (and price) tomorrow.

There are various ways of bringing the delinquent states into line. If a state is a legal entity, then Oklahoma, for example, can sue Illinois for developing its oil fields in a wasteful and ruthless manner to the damage of the oil property of Oklahoma. In the spirit of the Constitution, and by the rules of the common law, no state has a right to use its raw materials in a reckless



Making adjustments on an extraction unit used in the new "Clearosol" process of refining by Socony Vacuum Co., at Paulsboro, N. J.



manner when that destroys the general welfare or damages its neighbors. Forcing an oil well to its maximum production with undue production of gas is completely reckless in the eyes of modern engineering. Also, in the name of the general welfare and of interstate commerce, Congress can provide that no state shall waste raw materials in a grossly improvident manner and can provide for Federal officers to police the oil industry of a state like Illinois, which disregards modern science and engineering. By logic, the Supreme Court would be compelled to support such a law, or else abandon its present conception of the commerce clause as exhibited most recently in the case between the Labor Board and Consolidated Edison. Recklessly produced oil is "*hot*" oil which damages all interstate commerce in oil and its major products. *At present it is killing general purchasing power at the rate of more than one billion dollars per year, and preventing the re-employment of about a million men.*

To the investor, the important thing is that the problem of crude oil conservation must be re-handled this year and will be either strengthened or weakened. No wonder the oil securities have lain dormant for so many months. Should it prove true that conservation is to give way to the greed of a minority, then the oils will not be a purchase for several years, but if reason and engineering are to prevail, then the oils should be held today and more should be bought. As Mr. Farish, Chairman of Standard Oil of New Jersey, expressed it, "More important to the industry's welfare, however, than any other single factor is the adoption and enforcement uniformly by all producing states of a policy of bonafide conservation, limiting crude oil withdrawals in all flush fields to truly efficient rates."

Not all of the difficulties of the oil industry, however, are traceable to crude production. Part of the erratic disturbances during the past few years have been due to strong market shifts in the demand for various oil products. As anti-knock gasoline brought higher compressions in automobile engines, the character of lubricants demanded was changed in favor of more constantly fluid crank case oils. This threw the Pennsylvania industry out of joint and required the invention of new refining processes to meet the demand. Then house heating oils grew in favor and coupled with the ever-growing demand for gasoline produced an impossible relation to heavy fuel oil. The inability of the refining industry to meet these later shifts in demand has had a great deal to do with the present depressed state of the industry. Production of fuel oil in the heating season has meant an inevitable building up of huge gasoline stocks, and conversely, when demand was high for gasoline, burdensome stocks of fuel oil were produced to the detriment of prices.

Happily it can be reported that the end of this unbalance is in sight. A new invention will afford control over the proportionate products of refining, besides facilitating the production and increasing the yield of high octane rating gasoline. By means of it the refining industry bids fair to become more of a chemical industry with production and products true to requirements and specification.

Pioneering in this development have been Sun Oil and Socony Vacuum. In conjunction with foreign interests they have developed the Houdry process and formed a corporation for its licensing throughout the industry. Three plants are in operation, one in each of the sponsoring companies mentioned above and one in Europe. In addition, Socony is spending $24,000,000 for the construction of eight other plants, while Sun is building two large units costing $11,000,000. All of these plants will be in operation this year.

The New Process

It is obvious from such plans and expenditures that the process has passed the experimental stage and as other companies become licensees of it or develop similar processes (Standard Oil of New Jersey and others are said to be working in the same direction) that a broader control of the products of refining is at hand.

The new processes use a catalyst. In many chemical processes a substance is used which takes no known part in the reactions, but which facilitates the desired chemical changes. Such a material used in that way is a catalyst. Many people use a cocktail before a party dinner as a catalyst to promote social reactions. A genial host or hostess is a catalyst in making a group of guests respond actively to each other and have a good time. In making sulphuric acid it is finely divided platinum which causes the essential combination to take place. Insofar as published, the catalyst in oil refining is a mixture of activated silica and alumina, which are mixed together, pressed into bricks, dried and baked.

The catalyst will only do its work if the surrounding conditions are all closely controlled. Thus, in running crude oil for high anti-knock aviation fuel, the gasoline in the crude is first removed by distillation. Then the

heavy residue is run through a still where it is heated up to 880 degrees F. under pressure and then to a vaporizer where it is all turned into gas except a small amount of tar which is drained off as a liquid. The gas at that temperature is ready for the catalyst and is passed through a chamber filled with bricks of the catalyst, where it is changed into gasoline, furnace oil and gas oil. The furnace oil and gas oil may then be reheated and rerun over the catalyst if it is desired to make the maximum amount of gasoline. Changes of the catalyst and the temperatures may change the percentages of the end products.

The products of catalytic refining are astounding. It is apparently perfectly easy to take a very low grade oil such as we use for oiling roads and turn 45 per cent of it into extra high grade gasoline, while 55 per cent of it will come out as gas oil suitable for making house heating oil or diesel engine fuel. The quality of the products meets all requirements and meets the usual commercial tests. It is entirely probable that changes in operation of the same plant will enable it to meet all future changes in demand for specific products and at a cost no greater than normal cracking.

Economic Consequences

To be able to produce crude oil as fast as needed and no faster and then refine that oil into major market products, with no by-products; this would be an oil man's idea of heaven. It is not entirely out of reach "in our time." If reason and neighborliness can make the Interstate Compact cover the entire producing industry, directly or indirectly, then it is probable that these advances in refining can do all the rest.

The consequences of improvements in oil extend far beyond the oil industry itself. If extra high grade anti-knock aviation gasoline can be produced in quantity, this becomes the mobilization of the oil industry for national defense. Our supply of potential gasoline has again gone up over night by new inventions. We can tell the automobile industry that its fuel specifications can be raised so much and that they are welcomed to design their engines for the better fuel. We can tell the house heating engineers to raise the standard of American life by installing two or three times the present number of house heating units and we can fill the demand without any radical increase in prices. We can tell the makers of diesel engines to go ahead and do their worst and we will match them with five to ten times the present supply of diesel oil. And through it all the oil man will just vary the details of his many refining processes so that his ultimate products are those for which there is a real and desirable market.

Catalytic refining will also make a large contribution to real conservation in that present by-products become raw material for major products. Thus, heavy fuel oil will more and more be valued, not on the basis of heat competition with coal, but as raw material for house heating oil and gasoline, in competition with crude oil. The low grade oils of all kinds will increase in value in relation to high grade crude oil, and gradually in relation to coal.

As the practical application of present knowledge comes into operation through the building of new catalytic refining capacity and the more complete use of engineering knowledge in crude oil production, the oil industry itself will pass from a "feast or famine economy" to a partial state of "social security" and in so doing will pass on to a few million men its own assurance of a reasonable and continuous profit resulting from work and service. This all results, not from lobbying in Washington, but from burning *(Please turn to page 462)*

One of Sun Oil's Houdry units at the Marcus Hook Refinery, Marcus Hook, Pa.

Happening in Washington

BY E. K. T.

Business good-will is being sought by administration through more than mere talk. Leaders are now convinced that recovery can come through getting business in better state of mind, coaxing investment into new channels. Political motives are that the administration must have recovery before 1940 and must remove the issue of business-baiting, but regardless of motives the attempt seems to be sincere. The new attitude will be apparent in countless little ways, though with some inconsistencies.

Revision of laws, improvement in administrative practices, re-examination of reforms and innovations of recent years seems to be the task of this Congress as viewed both by Members and the President. There is little left of the old spirit of rushing things through for an emergency, and Congress will take time to go over everything carefully, including the national defense plans.

National defense message was surprising in its moderation after extravagant proposals known to have been considered at the White House. Recommended program is based on actual defense needs and what Army and Navy can acquire and use efficiently during next two or three years and is devoid of ideas to use huge rearmaments for pump-priming or for bluffing foreign nations.

WASHINGTON SEES—

Defense program sane and realistic.

Relief to be taken out of emergency status.

Business good-will being courted.

No precipitate patent law revision.

Tax exemption termination proposal facing a fight.

Wagner act not to be drastically changed.

Reviving interest in government economy.

Congress will scrutinize but adopt the program. It will mean sizable orders for many companies but spread over couple of years; the rearmament boom will be less of an influence on business than has been expected.

Permanent relief organization will be set up by Congress following generally lines of special Senate report. Unemployment will be accepted as chronic rather than emergency, and expenditures will be tied in with public works, unemployment insurance, re-employment service, and local relief programs. Congress will have control of funds, politics will be kept out of administration, and restrictions will be placed on chiselers and malingerers. On this issue, at least, Congress will meet the President's challenge to take the initiative.

Social Security revision will be made on a moderate scale pretty much along lines of S S Board's recommendations but influenced by the strength of the Townsend and similar movements. Strategy probably will be to let old age pension groups talk themselves out at committee hearings and then advance S S liberalization as the limit of feasible action. Incidentally, increased S S expenditures may prevent accumulation of old-age reserve fund so alarming to Republicans, though they would reduce it by lowering the tax rate.

Utility competition from government will not be extended much beyond completion of existing projects and continuation of rural electrification. T V A policy shows signs of becoming less militant. Passamaquoddy project may be revived but utilities won't oppose this because it affords little competition and they hope it will be such a failure as to give all federal power schemes a black eye. St. Lawrence project remains a possibility, but remote.

Airport construction program will be recommended soon by C A A, probably calling for federal grants-in-aid. Will mean considerable outlays to construction industry.

Wage-hour law may be amended to provide exemptions from over-time provisions for salaried employees at fairly high rate of pay. Andrews may find way to do this by interpretation but is afraid of abuses.

Supreme Court liberal majority is assured with three Roosevelt appointees, two other liberals, two old-time conservatives, and two moderates. Belief is that Frankfurter's decisions will not be radical or political, will be more like those of Brandeis, Stone and Reed than those of Black; that he did not originate the radical views of many of his students but his liberalism is the type that tolerates a variety of views but defends traditional American ideas of liberty. Roosevelt has now appointed one-third the Court and there is reason to believe he will have perhaps two more appointments during balance of his term.

Paid directors for corporations, the idea recently advanced by S E C Chairman Douglas, has met favorable comment in business circles which pleases and surprises government officials. No legislation is anticipated, although a variant of the idea is in the Borah - O'Mahoney licensing bill, but the theme will be harped on repeatedly as many New Dealers have been striving for years to make bank and business corporation directors play more active and responsible roles and to eliminate domination of companies by directors with special interests. They consider it democratization of business.

Wide World.

Felix Frankfurter, recently confirmed Associate Justice of the Supreme Court.

H O L C mortgage moratorium and interest reduction is again sought in large group of bills in Congress, but administration is firmly set against such a move and is in good position to defeat it, being prepared to show that collection policy has not been harsh, and legislation making easier terms would be unfair to other lenders and borrowers.

Patent law revision will not be rushed through without full consideration, and basic features of patent system will be retained whatever novel suggestions may be advanced by some members of T N E C. Changes will be aimed at minor abuses of patents, chiefly dilatory litigation. Defense of the system by Patent Office pretty much represents views of business and the patent bar and is significant as showing willingness of T N E C to hear both sides and not jump at conclusions.

Oliphant's death removes from both Treasury and T N E C a brain truster credited with having supplied Roosevelt with ideas for undistributed profits tax, attacks on business bigness, and other ill-starred proposals. This event and replacement of former Representative Eicher with Representative Williams of Missouri (who is not a New Dealer) promises to make the trend of T N E C studies less radical than was formerly feared.

Steel wage order under Walsh-Healey act, while not all that labor interests asked, has some aspects of a political decision in the way in which zones were bounded and minimum wages set which appear to be directed at certain medium-sized companies which have not paid the C.I.O. scale of the larger plants. Smaller independent companies are hit hardest and some observers anticipate court action to test the validity of the method by which minimum wages and differentials are set since during the hearings a careful record was built up presumably for this purpose.

Reciprocal tax suggestions of Roosevelt may be attempt to reduce state opposition to his plan for federal taxation of state employees and securities by promising relief from retroactive taxation of quasi-governmental agencies like the N. Y. Port Authority, but while many Congressmen are much interested in stopping retroactive taxation they are not anxious to link the two together and complete elimination of tax exemption is not expected soon. Besides, Roosevelt's method is open to grave constitutional questions.

Wagner act amendments will not be sweeping or drastic. While many groups seeking amendment are moderating their demands there are still conflicts engendering a deadlock. Many strategists now feel major amendments would meet a veto which would be sustained and that all that can be put through is mild changes in procedure.

Export trade stimulant is one of the objectives of T N E C which is making a study of successes and failures of Webb-Pomerene export associations which get exemptions from anti-trust laws for foreign trade. Study includes disbanded as well as going concerns. Significant that one phase involves extent to which these associations have been able to compete with European cartels and managed economies.

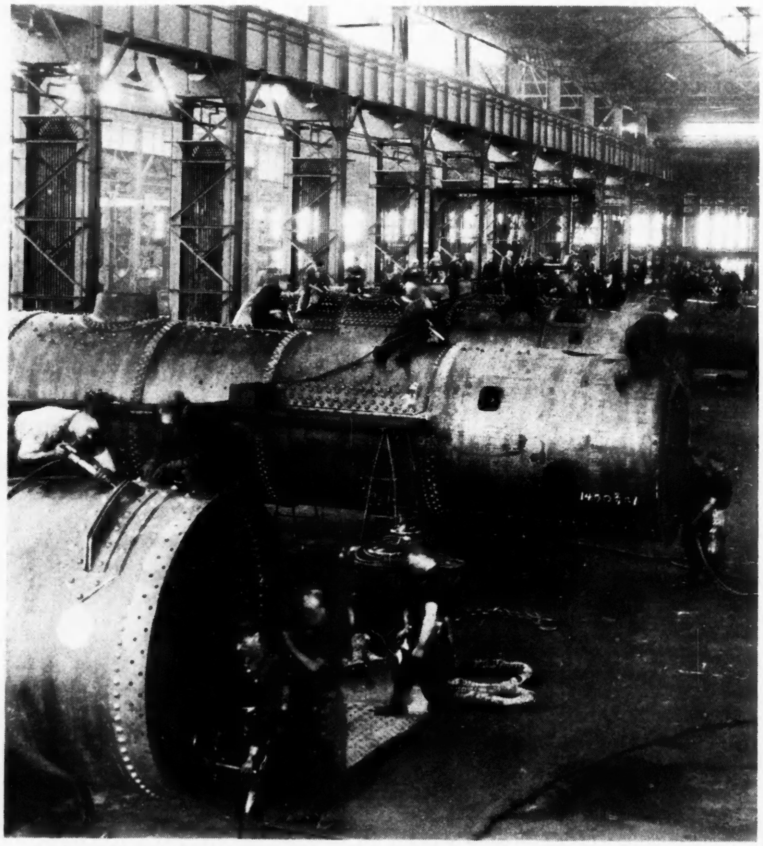
Economy pressure is growing in Congress and out. Cut in relief appropriations and renewal of blasts by National Economy League and other agencies are indications of reaction to Roosevelt's frank admission that his only hope of balancing the budget is a big increase in national income. Pressure will not be enough to bring any reduction in current spending but it will serve to keep down new authorizations.

Farm law revision is sought by bi-partisan House and Senate bloc in bill calling for outright price fixing based on cost of production and strict regulation and licensing of processors and handlers of farm products, but no production limitations. Administration is opposed, but may be jockeyed into accepting part of it since some changes in present law are pretty certain to be made. Cotton interests, alarmed at loss of *(Please turn to page 464)*

Baldwin Locomotive—

A Stake in Armament, Heavy Industry and Rail Equipment

BY C. V. McNEIL



View of the Baldwin Locomotive Works' boiler shop at Eddystone, Pa.

Stock habits are a bit odd. A company becomes identified as a rail equipment or a steel and it moves up or down with its group, often with small regard for its own particular fortunes. Names, too, are apt to be confusing. You mention Baldwin Locomotive and the average trader will tell you that the company is one of the two leading locomotive manufacturers and let it go at that. Does he know that among the eight principal Baldwin subsidiaries are a leading hydraulic machinery builder, an important ship's propeller maker, and the oldest and largest ordnance manufacturer in America, just to mention three? He might. Armament stocks have been in the public eye for over a year now and the Midvale Company, builder of big guns fully the equal of Krupp's, is getting more publicity than is customary. Nevertheless, the point to be stressed is that Baldwin does a great many things besides building locomotives and tenders although that is its principal business. Let's look at that first.

Not very long ago the sales prospects for locomotives were fairly dismal but the jump in October and November net operating income of most railroads plus the changed attitude of the government towards the rails has altered things. As this is written announcement has been made that Southern Pacific is in the market for 40 steam locomotives and Union Pacific for 15 and that Baldwin is bidding on both orders. The former will be the largest single order in several years. The important fact is that the need is for steam locomotives. Past experience shows that ordinarily Baldwin gets about 40 per cent of the total locomotive business but recently Electro-Motive, a General Motors subsidiary, has obtained a large share of the freight switching business. Electro-Motive makes diesels which cost much more than steam locomotives, operate more economically on switching work, but are seldom used on longer hauls. Baldwin also makes diesels, in fact all types of locomotives including electric locomotives in conjunction with Westinghouse, but has been at a disadvantage in offering easy payment terms in competition with a corporation as financially powerful as General Motors. Undoubtedly, in any marked pick-up in railroad buying, Baldwin will obtain its normal share of the business.

In evaluating the locomotive market care must be exercised not to be influenced too much by the rather distorted figures of the last few years. Estimated annual requirements of all roads for new locomotives are about 2,000 per year. Sales in 1937, a good business year, were only 250 against 471 the year before, the principal reason being the wage rise forced upon the railroads that year and which made them take in their belts as far as equipment expenditures were concerned. Passenger and freight car sales increased in 1937 over 1936 so that it is apparent that locomotive purchases, as the most expensive single item, were deferred as rail operating costs mounted and net fell. Wear and tear

goes on however, and old locomotives grow less and less efficient until the original saving becomes an expense; the latent demand is progressive and waits only on either a gain in revenue or adequate financing. R. F. C. loans have been, and are likely to be a much bigger factor in solving the latter problem. The fact, too, is not lost on other managements that New York Central's 20th Century Limited has actually gained substantially over previous years despite a general traffic fall and due to advertising that emphasized the up-to-dateness of its equipment. The whole rail equipment field and especially locomotive makers, who have felt the pinch of forced economy longest, may be said to be facing 1939 with the best prospects in several years.

Ample Diversification

Baldwin can make money out of locomotives alone but there are other important fields. Among Baldwin subsidiaries, Whitcomb Locomotive manufactures gasoline, diesel, or electric locomotives of the smaller type used by mines or factories. De La Vergne Engine Company builds diesel engines and diesel engine compressors for railway or marine service.

Cramp Brass & Iron Foundries produce various castings and forgings, including propeller wheels and blades. Pelton Water Wheel Company makes hydraulic turbines, and hydro-electric plant equipment. Standard Steel Works is another important unit, producing locomotive forgings, steel castings, and rolled steel products.

Baldwin-Southwark Corporation is one of the largest subsidiaries and produces and sells a wide variety of products used by heavy industry. Among them are hydraulic machinery including presses, power tools, testing machines, hydraulic turbines, and special equipment for rubber tire factories, shipyards, and railroad shops. Recent operations have been satisfactory and Baldwin-Southwark will show for 1938 the first profit in several years.

The pride of the Baldwin group is, of course, the Midvale Company. It will probably make the best comparable showing with 1937 of any steel company in the United States, earnings being estimated at $5.50 a share against $6.71 in 1937.

Baldwin's investment in Midvale has proved highly profitable. Owning 122,900 shares or 61.5 per cent, Baldwin's cost was 7½ a share net and at current prices of above 100 shows a handsome appreciation.

The original Midvale Company began experimenting with ordnance steel in 1875 and has been building guns and projectiles ever since. When capacity is taken into consideration it is probably the largest armament manufacturer in the country.

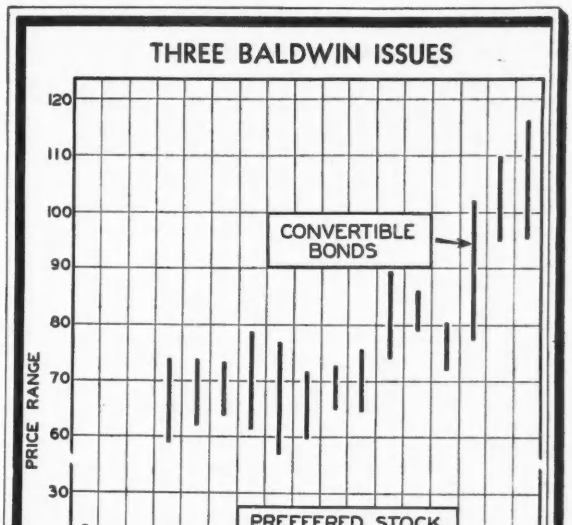
The manufacture of big guns is a slow and intricate process requiring excellent craftsmanship and not many plants are equipped to do it. Midvale builds a number of the navy's 16-inch turret guns, some of the army's largest guns, and anything down to 5-inch broadside guns. They also make liners, the precisely machined rifling that fits into large guns, all types of shells, gun forgings, breeches, and armor plate. They are constantly up against the double requirement of developing a steel armor that no shell can pierce and then when they have done it, a projectile capable of piercing the armor. Of the recent $8,000,000 armor plate order placed by the Navy Department for the battleships Washington and North Carolina Midvale received 30 per cent. Midvale is bound to be an important and irreplaceable part in the government's plan for rearmament and national defense.

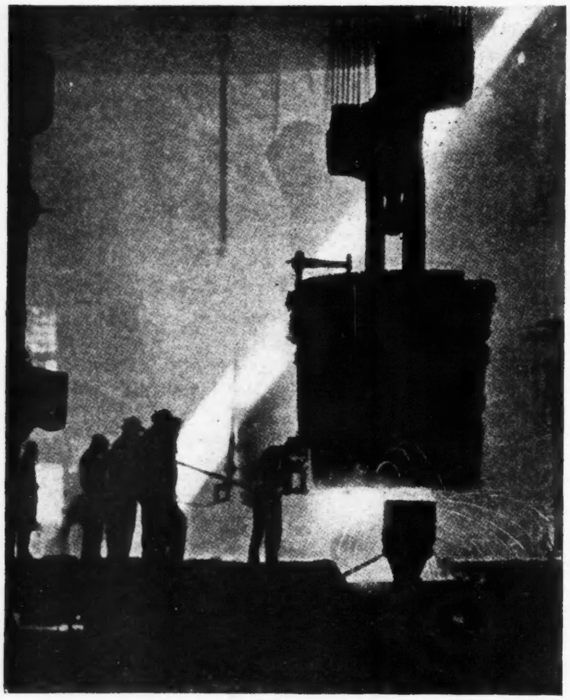
Midvale also prides itself on large forgings and castings. A number of them have been among the largest made in the world. Some years ago when steel cracking cylinders for oil refining were made in a single weldless piece Midvale punched and drew them out from ingots weighing as much as 450,000 pounds. Midvale also makes many of the large forgings for locomotives and one of its most important products is steel tires for locomotives and cars.

The company is a specialty steel maker of the highest quality and naturally their prices in relation to those of competitors are high. But toolmakers, or the government, or anyone with a hard problem to lick is usually glad to pay them to get superior products and workmanship.

Moreover, Midvale's research laboratories are responsible for a number of important alloy developments. Back in 1904 nickel-chromium steels were developed for automobile forgings, grades known as Midvale-Packard, Midvale-Pierce-Arrow, Midvale-Buick, which appear today, with trifling changes in composition, in the standard S. A. E. series.

To a person buying into Baldwin today, there is a distinct advantage in that the company went through reorganization in late 1937. The reorganization cancelled $7,324,000 first mortgage bonds, redeemed a junior funded debt of $3,964,700, eliminated 200,000 $100 par preferred with $42 a share in back dividends, and reduced the common stock 128,018 shares. Annual charges





Pouring the melt of three furnaces into one huge ingot for a rotor shaft forging in the Midvale open hearth. This is believed to be the largest of its kind ever made.

are now $657,053 versus $1,326,136 before allowing interest on bank loans. Accrued liabilities cancelled amount to $3,545,000, liabilities extinguished on old mortgage bonds were $713,646, and liquidated unpaid interest equalled $1,164,762. A new stockholder can be fairly confident that his company's worst troubles are behind, that the trend from here on is upward.

Some idea of the advantage of diversified subsidiaries is conveyed by the fact that in 1937 Midvale paid to Baldwin $737,400 in cash, Standard Steel works paid $480,000 in cash and $240,000 in 3 per cent notes, and Pelton Water Wheel paid $80,000 in 3 per cent notes. Thus, even in a relatively bad locomotive year, Baldwin was carried along on a profitable basis by diversification. Given a fair volume of locomotive business, gains could be very marked indeed.

In 1937 Balwin earned its first profit in several years, $407,377, equal to 32c on the common. For the twelve months ended September 30 last, a net loss of $503,322 was reported but fourth quarter results should make an improved showing. Not only was the general level of business improved but Midvale declared dividends totaling $2.50 in the fourth quarter which amounts to $317,250 for Baldwin. 1939 earnings are dependent largely upon increased railroad equipment expenditures. Without material gains in rail buying Baldwin's subsidiaries may keep the parent company around the break-even point; with material gains $1 a share or more may not be too optimistic an estimate of earnings on the common. In that case the August, 1937, high of 23¾ for the present common should be equalled or surpassed. Some idea of the rapid strides the company is capable of in a strong rail market is gleaned from its dividend history in the 'Twenties. After passing the common dividend in 1915 none were paid for three years. Then, in 1920, the common was jumped to a $7 dividend basis which rate held for ten years until the stock was split 4 for 1 in 1929. Of course, today, there is about five times as much common outstanding as there was in 'Twenties and even granting marked improvement, no such high dividend rate is remotely possible. The record is cited only as evidence of the rapidity of improvement possible under exceedingly favorable circumstances.

The company has another advantage to a potential investor in that there are several securities from which to make a selection. There are $2,676,000 first mortgage S. F. 5s, a good grade bond selling currently at 105. There are also the more speculative 6s of 1950, $6,470,000, convertible into 65 shares of common until 1945, selling currently at 103. There are 1,164,742 shares of cumulative 7 per cent preferred of $30 par, selling currently at 20, and the company may at its option pay interest on the bonds in preferred stock. For those who prefer low-priced speculations there are 621,172 warrants, selling at 7½ which entitle the holder to purchase common at 15 up to September 1, 1945, and are therefore a long-term call or option on the common. And finally, there is what is in effect the common itself, voting trust certificates to September 1, 1945, for 1,027,762 shares of common, selling currently at 15.

The warrants and the 6s of 1950 move up and down in response to the market fluctuations of the voting trust certificates as there are usually arbitrage traders who preserve the relationship. It is for this reason that Baldwin V. T. C.s ordinarily have a substantial short interest —as a hedge against commitments in the 6s and the warrants. It also insures much better than average marketability in all three securities. The 6s, being convertible into V. T. C.s are worth 97½ on the conversion feature alone with the V. T. C.s at 15. Theoretically, they should move up 6½ points for every one point rise in the Baldwin certificates. Then, of course, the bond itself and the yield enter into the price. As a speculative bond with a conversion "kick" the 6s of 1950 have few superiors.

The warrants, the preferred, and the 6s all sell on the New York Curb. It is not believed that either the preferred or the warrants are as good a medium for speculation as the 6s or the V. T. C.s. The 5s of 1940 and the V. T. C.s sell on the New York Stock Exchange. The former is essentially an investment bond. The latter, while speculative, has unusual appeal. Baldwin common has always been a mover. The extreme range from 1929 to 1937 was from 66⅝ to 1½, although because of reorganization the present V. T. C.s are not strictly comparable with the old common. Now that Baldwin has got rid of some of the debt and liabilities that were holding down working capital and considering the signs of reawakening railroad demand for locomotives, the common or V. T. C.s can be expected to reflect the improved outlook.

Since the reorganization, Mr. Charles E. Brinley, who was largely instrumental in improving the affairs of the company, has been elected president and there have been other changes in the management. Total consolidated bookings for the first eleven (*Please turn to page* 460)

Annual Dividend Forecast

Part 1. Steels, Oils, Public Utilities, Metals, Machinery, Electrical, Agricultural, Railway and Business Equipment

A YEAR ago it was necessary to anticipate numerous dividend changes reflecting the swift decline in nearly all industries in late 1937 and the rather dour prospect of 1938. Today the trend is in the opposite direction. Since early summer the pace of business activity has been quickening and the prospect is for further advance and expansion of industrial operations. Earnings trends point upward, and as the year advances, should in many cases produce corresponding gains in the dividends disbursed to shareholders.

However the tendency to avoid fixing an annual dividend rate and to pay only what recent earnings justify still prevails among an increasing number of companies. Dividend policies are also modified by the desire of not a few managements to finance necessary expansion or modernization out of earnings even at the cost of a sizable undistributed profits tax.

We have taken these things into consideration insofar as possible in appraising dividend prospects for each company. Our views are indicated by individual comment and by the market rating explained in the accompanying box on this page.

As usual the Dividend Forecast is divided into three parts. Part I, covering Public Utilities, Steels, Oils, Metals, Machinery, and the various equipments, appears in this issue. Part II dealing with Movies, Liquors, Motors and Motor Accessories, Foods, Tobacco and Chemicals will be in the issue of February 11. Part III covering the Railroads, Aviation, Building, Merchandising and Miscellaneous Specialties will be published in the issue of February 25.

Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters, A, B, C, D, are used in connection with the industry according to the current and prospective activity in the field. These letters are not concerned in any way with individual companies. The numbers, 1, 2, 3, 4, are used for rating the company on its earning power, current and prospective.

INDUSTRY	COMPANY
A—Active, further progress indicated.	1—Good earning power, substantial gains indicated.
B—Active, further progress may be slow.	2—Improvement in earnings expected.
C—Depressed, prospect for recovery favorable.	3—Gain in earning power may be slow.
D—Depressed, no nearby improvement indicated.	4—Earnings outlook unfavorable.

Steel Profits Will Grow

But Dividends Will Lag Well Behind Earnings

IT IS known, but not sufficiently appreciated, that because the steel industry is some distance removed from eventual consumer buying power its minor fluctuations are more in response to guesses on the part of some manufacturers in between the steel makers and the final users of the products than to actual changes in demand. The investor sure of the main trend of industry can, in other words, ignore weekly jumps and dips in the rate of steel operations. If rail makers book a lump of new orders early in the year, this is not so important as it might seem. It exerts a certain psychological effect, that is true, but in making up total output and total earnings of the rounded steel company at the end of 1939 these flurries will have very little weight.

The present moment provides several good examples. Automobile manufacturers are buying very conservatively, awaiting a fairly sure indication of spring sales. (In this connection it should be remembered that a great deal of the steel they use deteriorates for their purposes if kept too long before processing. An overbought motor maker has more worries than the capital and storage space he ties up in raw materials.) Now, unless one is of the opinion of the manufacturer as to future sales, the important factor to the steel investor is not the amount currently being ordered by Detroit but the current and prospective purchases of the ultimate car buyer. It will make little difference in the year's results whether the manufacturer orders now in advance of demand or a month or two later.

Similarly, purchases by the railroads will be welcome now or in the future; the impulse and power to buy are more important than the actual week of the orders.

Building construction, it appears, should be a steady and good customer for steel throughout the year, even without the potential boom. Miscellaneous consumers will inevitably step up their takings as the general uptrend becomes more seasoned and further advanced.

The outlook for volume in the steel industry is therefore dependent almost solely upon the course of the present recovery. If it is to persist, and the chances are excellent that it will, then the steel companies may expect an opportunity to test their profit margins under the new conditions of higher wages, lower prices, and a revised system of basing points. The actual results of the test are for the future to disclose, but to prophesy in a general way, 1939 has an excellent chance of being the year in which the steel industry proved that it could still earn substantial profits despite the changes it has undergone.

Prompt resumption of the dividend flow is an entirely different matter. The largest companies are likely to be ultra-conservative in their policies toward stockholders at least until the year-end. Preferred dividends, in some cases bond interest, have been paid out of surplus for a considerable length of time, and meanwhile the advantages of new investments in modern plants and equipment have been re-emphasized. No one can say what the next technological change will be, nor when, but one thing is certain: the rate of obsolescence in steel-making equipment is accelerating. Even the plants which have spent many millions within the last two or three years, in many cases increasing obligations prior to the common stock, are given only an indeterminate breathing spell before profit margins may need new protection, involving further expenditures.

With certain obvious exceptions, the industry should not be expected to provide through its common stocks a steady investment income. Dividends are a consideration far subordinate to cyclical swings of the group. This is another fact known but not always given sufficient weight in timing investments in the steels. Currently, as in many other general revivals, the industry offers capital appreciation possibilities above the average, dividends below.

Position of Leading Steel Stocks

COMPANY	Earned per Share 1937	Earned per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Acme Steel	5.78	1.20	52	28	41	1.25	C-2	Dividends in current year may expand considerably.
Allegheny Ludlum Steel	2.16	def.	29¾	14⅝	25	None	C-2	New consolidation may soon have opportunity to show its earning power.
American Rolling Mill	2.55	def.	24½	13⅛	20	None	C-2	Dividends must await clearing of preferred arrears.
Bethlehem Steel	7.64	def.	78⅞	39¾	73	None	C-2	Shipments and operating results have improved; common dividends not imminent.
Byers, A. M.	d1.15(a)	def.(a)	15⅜	6	12	None	C-3	Preferred arrears and prospective slowness in recovery postpone common dividends.
Colorado Fuel & Iron	2.18(b)	def.(b)	23⅞	9⅛	21	None	C-3	Small common capitalization would allow rapid recovery in per share results.
Continental Steel	3.20	2.20	29½	10	27	1.00	C-2	Generous dividend later in the year is likely.
★Crucible Steel	5.26	def.	44⅜	19¼	44	None	C-2	Sharp recovery expected, but dividends out of the question for the present.
Granite City Steel	0.66	def.	22⅜	10⅛	18	0.12½	C-2	Dividends will be slow in materializing.
★Inland Steel	8.05	3.00	95	56¼	90	2.50	C-2	Earnings and dividends face considerable expansion.
Jones & Laughlin	1.18	def.	43½	21	34	None	C-3	Arrears on preferred, large 1938 loss on common, eliminate dividends from picture.
Keystone Steel & Wire	1.53(b)	0.96(b)	14⅝	6½	12	0.65	C-2	Modest dividends will probably continue.
McKeesport Tin Plate	1.26	0.50	26⅛	13⅛	16	0.50	A-3	Further payments in the near future are problematical.
National Steel	8.21	3.00	81¾	44¾	78	1.00	C-2	Larger dividends for 1939 are quite possible.
Otis Steel	1.72	def.	15¼	6⅜	13	None	C-2	Preferred arrears (small) will delay dividends on common.
★Republic Steel	1.19	def.	25⅝	11¼	23	None	C-2	Common dividends not a consideration, but earnings possibilities are good.
Sharon Steel	2.83	def.	23	10	20	None	C-2	Continued improvement would mean eventual payments on common.
Superior Steel	2.11	def.	23½	8¾	20	None	C-2	Restricted finances make dividends unlikely.
U. S. Pipe & Foundry	3.21	2.38(pl)	49⅝	21½	44	2.00	C-2	Larger payments may be hoped for in 1939.
★U. S. Steel	8.01	def.	71¼	38	65	None	C-2	Preferred dividends not being earned, but profits can rise quickly.
Wheeling Steel	4.03	def.	32¾	14½	28	None	C-2	Last half of 1938 was profitable; common dividends not imminent.
Youngstown Sheet & Tube	6.79	0.83(f)	57¼	24	50	None	C-2	Probably reached profitable stage in fourth quarter 1938; dividends await further progress.

E—Estimated. (a)—Year ending Sept. 30. (b)—Year ending June 30. (c)—6 months ending June 30. (d)—Deficit. (f)—9 months ending Sept. 30. ★—In our opinion, the more attractive profit opportunities. (pl)—Preliminary.

Position of Leading Oil Stocks

A detailed discussion of the outlook for the oil industry appears in this issue on page 419

COMPANY	Earned per Share 1937	Earned per Share 1938(E)	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Amerada	3.04	2.25	78	55	68	2.00	B-2	Net hit by lower crude prices. Divs. covered by fair margin.
Atlantic Refining	3.51	1.75	27⅜	17¾	22	1.00	B-3	Net reduced by lower gasoline prices. Divs. probably safe.
Barnsdall Oil	0.84	1.40	21⅜	10⅛	17	1.00	B-2	Lower costs bolster profits. No change in present div.
Consolidated Oil	1.48	0.75	10¾	7	9	0.80	B-3	Earnings decline reflects pro-ration and lower gasoline prices. Present div. rate somewhat in doubt.
★Continental Oil	2.98	1.60	35¾	21¼	28	1.00	B-3	Drastic curtailment in output and lower refined prices cut net. Divs. secure.
Creole Petroleum	1.61	1.60	27½	17½	23	1.00	B-2	Larger output scheduled for 1939. No change in divs. likely.
★Gulf Oil	3.51	2.00	46⅞	33	38	1.00	B-3	No early gain in earnings anticipated. Divs. secure.
Houston Oil	0.95	0.80	9¾	5	7	None	B-3	Preferred arrears preclude early payments on common.
Humble Oil	5.22	5.00	72⅝	56	66	2.00	B-2	Earnings aided by pipe line activities. Conservative div. secure.
International Petroleum	1.81(b)	1.98	31¼	27¾	26	2.50	B-2	Important South American producer. Reg. divs. secure.
Mid-Continent Petroleum	2.85	1.00	22⅝	12¼	15	0.60	B-3	Sales gained substantially but net cut by lower prices. Present div. reasonably safe.
Ohio Oil	1.31	0.30	14⅞	8⅞	10	0.20	B-3	Lower crude prices responsible for decline in earnings. Div. outlook uncertain.
Phillips Petroleum	5.42	2.75	44⅜	27¼	40	2.00	B-3	Pro-rated production and lower refined prices restrict profits. Divs. secure.
Plymouth Oil	2.85	2.40	25⅜	15	22	1.40	B-2	Company is small but successful. Present divs. earned by good margin.
★Pure Oil	2.15	0.15	13½	8¼	10	None	B-3	Sharp drop in earnings reflects lower sales and prices. Divs. not imminent.
Seaboard Oil	1.97	1.25	27½	15½	22	1.00	B-2	Restricted production coupled with lower crude prices account for lower net.
Shell Union	1.44	0.80	18⅜	10	14	0.70	B-3	Nine mos. net equal to 61 cents for common vs. $1.11 in 1937. Longer term outlook better.
Skelly Oil	6.06	1.75	34¾	18½	24	1.00	B-3	Shares have speculative promise and divs. reasonably secure.
Socony-Vacuum	1.82	0.95	16⅜	10¾	13	0.50	B-3	Divs. conservative and shares have long term merit.
★Standard Oil of California	3.15	2.50	34⅞	25⅛	28	1.40	B-3	Near term outlook somewhat clouded by West Coast overproduction of crude. Divs. reasonably safe, however.
Standard Oil of Indiana	3.66	2.25	35½	24¾	28	1.00	B-2	Earnings would benefit from firmer refined prices. No change in divs
★Standard Oil of New Jersey	5.64	3.75	58⅜	39¾	50	1.50(a)	B-2	Working capital needs may necessitate further div. payments partly in stock.
Standard Oil of Ohio	3.66	—	22¾	16¼	21	1.00	B-3	Lower earnings foreshadowed by curtailed consumption and lower prices. Divs. probably safe.
★Sun Oil	4.17	1.25	65⅛	45	61	1.00	B-3	Cash divs. well supported. Shares have investment merit.
★Texas Corp	5.02	2.40	49⅝	32⅝	45	2.00	B-3	Smaller industrial demand and lower prices deplete profits. Earnings should provide coverage for present divs.
Tide Water Associated	2.09	1.25	15¾	10⅛	13	1.00	B-3	Divs. appear reasonably secure. Current earnings prospect better.
Union Oil of California	2.58	1.50	22½	17⅛	19	1.20	B-3	Lower sales cut into net. No change in divs.

(a)—Plus stock div. of 3 shs. for each 200 shs. held. (b)—Year ended June 30. (E)—Estimated.
★In our opinion, the better market opportunities.

Electric Power Volume at New Peak

Earnings Prospect Moderately Favorable

CONSUMPTION of electricity recently attained a new all time high, topping previous peak made early in 1937. Due to business depression in the first half of last year, volume in 1938 was approximately 5 per cent less than in 1937 for the industry as a whole. The 1939 outlook appears moderately favorable, both as regards economic and political factors.

When we see equities of various sound operating utilities priced to yield a dividend return of 6 per cent or more under present easy money conditions, with dividend records for several decades vastly superior to those of the great majority of industrial enterprises, it is self-evident that the chief element of investment doubt remains on the political side. In the sense that this is a regulated industry, like the railroads, it can never be free from politics, but the practical question is one of degree.

Certainly political pressure on rates, especially as regards domestic users, will continue, but the rate trend has been downward for many years. The tax trend is upward, as it has been for years. Assuming further industrial recovery, stable commercial demand for electricity and a moderate additional expansion of domestic demand, there is no reason to fear that rate and cost factors will preclude reasonably satisfactory earnings and continued adequate coverage of present dividends by the sounder systems. In recent years the fears and doubts of utility investors have centered mainly in the Federal Government's hostile attitude, its attack on utility holding companies, the direct competition of Federal power projects with some private utilities and the use of Federal money in subsidizing municipal power plants. Due to the result of the November election and the more conservative attitude of Congress, it seems safe to say that the general force of the New Deal's utility attack has passed its crest and is waning.

What the Government *has* done in competition with the utilities has been a less vital investment influence than uncertainty as to further encroachment. In the final analysis this boils down to the Administration's ability to get appropriations from Congress. In our opinion Congress will not vote money for additional Federal power projects or for additional subsidization of municipal power plants, at least for some years to come. The president has not asked more appropriations for such purposes, probably knowing they would not be forthcoming.

An early Supreme Court decision on the T V A case is expected. In view of the present composition of the Court, a victory for the Government would not be a startling surprise, nor would it substantially change the present utility picture. Compliance with the provisions of the Holding Company Act, as enforced by the S E C, is being permitted to proceed with commendable deliberation, avoiding any serious threat to security values.

In at least one respect, New Deal policy has aided the utilities. Low money rates have enabled utilities to refund nearly $4,000,000,000 of bonds during the past four years at coupon rates averaging around 3.6 per cent, with important savings in the interest bill. Such refunding in 1938 was about $900,000,000, at an average rate of 3.54 per cent and an average issue price of 101.4.

Utilities which have paid good dividends through two depressions since 1929 and through the New Deal war, will in all probability continue to pay off. It would seem late in the day for utility investors to abandon hope.

Position of Leading Public Utility Stocks

COMPANY	Earned per Share 1937	Earned per Share 1938	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
American & Foreign Power (p)	7.70(a)	6.77(a)	5¼	2¼	3½	None	B-3	Revenues 3.1% lower; accumulated unpaid preferred dividends are large and will continue to grow.
American Gas & Electric	2.41(a)	2.17(a)	37½	19⅛	36	1.40	B-2	Earnings decline moderate and is being reversed. Dividend should continue at same rate.
American Light & Traction	1.82(a)	1.40(a)	18¼	10	16	1.20	B-3	No developments in sight which seriously threaten dividend rate.
American Power & Light	0.54(b)	0.04(b)	7½	3¼	7	None	B-3	Both gross and net operating revenues turned upward in November, but common dividends in 1939 highly improbable.
American Tel. & Tel	7.77(c)	5.92(c)	150¼	111	156	9.00	B-3	Regular dividend rate seems safe over near-term in view of improving revenues.
American Water Works	1.38(a)	0.36(a)	16⅛	6	7½	None	B-3	Although simplification approved by S E C, consummation will probably await favorable market conditions. Nearby dividend unlikely.
Brooklyn-Manhattan Transit	def.(f)	def.(f)	14¾	5⅜	12	None	B-4	Deficit after charges and approaching bond maturity preclude dividends.
Brooklyn Union Gas	2.37(a)	2.14(a)	23⅜	10⅛	19	0.40	B-3	Gross revenues slightly higher, but expenses lower profit margins. Dividends not likely in near future.

Position of Leading Public Utility Stocks—Continued

COMPANY	Earned per Share 1937	1938	Price Range 1938 High	Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Cities Service	0.34(g)	d0.01(g)	11	5⅛	8	None	B-3	Large arrears on preferred issues bar common dividends.
Columbia Gas & Electric	0.57(a)	0.36(a)	9⅞	5⅛	8	None	B-3	Small common dividends later in the year are quite possible.
Commonwealth Edison	1.38(g)	1.68(g)	28	22⅛	27	1.33¾	B-2	Dividends at the new 40c quarterly rate should be continued.
Commonwealth & Southern	0.20(b)	0.08(b)	2¼	1	2	None	B-4	Accumulations on preferred and uncertainties in T V A territory postpone dividend hopes.
Consolidated Edison	2.16(a)	2.22(a)	34¼	17	34	2.00	B-2	Slowly rising earnings create additional confidence in the 50c quarterly dividend rate.
Consolidated Gas of Baltimore	4.67(a)	3.95(a)	74	55	72	3.60	B-2	Dividends are apparently stable at this level.
Detroit Edison	8.15(b)	5.73(b)	115⅛	76	116	6.00	B-3	Extras of $2.00 may very well be equalled this year, as earnings have begun to recover.
Electric Bond & Share	0.23(g)	0.09(g)	15⅞	4½	12	None	B-4	Improving business cannot quickly bring dividend payments on common stock.
Electric Power & Light	1.11(b)	Nil(b)	14	6⅛	12	None	B-3	Arrears on preferred stock are serious obstacles to common dividends.
Federal Light & Traction	2.55(h)	2.36(h)	16½	6⅞	15	0.25	B-3	Small payments on the common may be hoped for at intervals.
International Hydro-Electric "A"	1.03(g)	d0.65(g)	9⅛	3⅛	8	None	B-3	Flood damage caused third quarter loss. Dividends on "A" stock not in sight.
International Tel. & Tel	1.10(g)	0.96(g)	11⅝	5½	10	None	B-3	No dividends in prospect until cash position is improved. Earnings stated do not include Spanish subsidiary.
Laclede Gas Light	4.18(a)	def.(a)	18	8	12	None	B-3	S E C calls debt structure burdensome, bars dividends until further authorization.
Louisville Gas & Electric "A"	1.65(i)	1.40(i)	19⅝	12½	17	1.50	B-3	Gross revenues running slightly higher than a year ago; dividend less secure because of lower rates.
National Power & Light	1.32(b)	1.27(b)	9⅝	5	9	0.60	B-3	T V A competition, lower rates, threaten the common dividend.
Niagara-Hudson Power	0.87(a)	0.55(a)	10⅜	5⅛	9	0.25	B-2	Outlook justifies hopes of a dividend equal to or larger than last year's.
North American	2.05(a)	1.59(a)	26⅛	13¾	25	1.20	B-2	Dividends at present rate should continue.
Pacific Gas & Electric	2.84(a)	2.42(a)	30	22¾	30	2.00	B-3	Earnings should stabilize at level allowing satisfactory dividend coverage.
Pacific Lighting	4.50(a)	3.92(a)	43⅛	32¼	44	3.00	B-3	Trend of profits has turned upward and assures regular dividends.
Peoples Gas, Light & Coke	4.67(a)	2.52(a)	42	22⅛	39	1.00	B-3	Rate questions and Chicago business conditions will decide whether larger dividend possible.
Public Service of N. J.	2.67(i)	2.27(i)	35½	25	35	2.20	B-3	Improvement in earnings strengthens outlook for regular dividend rate.
Southern California Edison	2.26(a)	1.92(a)	25	19¼	25	1.75	B-3	Regular $1.50 dividend rate indicated, with possible extra later in year.
Standard Gas & Electric	d0.45(a)	d2.18(a)	5½	2	4	None	B-4	Business pick-up should turn earnings sharply upward, but no dividends in prospect.
United Corp	0.10(g)	0.02(g)	4⅝	2	3½	None	B-3	Small preferred arrears bar common dividends; earnings should improve.
United Gas Corp	0.18(b)	def.(b)	5¼	2⅝	3¼	None	B-3	Any payments on common are a considerable distance in the future.
United Gas Improvement	1.12(a)	0.97(a)	12⅞	8¾	12	1.00	B-3	Generous dividends in proportion to earnings should continue.
United Light & Power "A"	0.40(b)	0.10(b)	3¾	1½	3	None	B-3	Latest report shows reversal in earnings downtrend; dividends not in sight.
Utilities Power & Light "A"	def.(e)	def.(e)	1¼	½	..	None	B-4	Prior claims make position of "A" stock dubious.
Western Union	2.79(j)	def.(j)	34¼	16½	24	None	B-4	Continuation of general pick-up should restore profits, but no dividends imminent.

(a)—12 months ending Sept. 30. (b)—12 months ending Nov. 30. (c)—9 months ending Aug. 31. (d)—Deficit. (e)—Estimated. (f)—5 months ending Nov. 30. (g)—9 months ending Sept. 30. (h)—12 months ending June 30. (i)—12 months ending Oct. 31. (j)—11 months ending Nov. 30.

More Active Demanded Needed for Better Metal Earnings

NEARLY all of the leading metal producing companies suffered a sharp decline in earnings last year. Exceptions to this experience were few although some producers of specialty metals were able to turn in a fairly good earnings performance by contrast. Earnings of gold mining companies were moderately lower but for the most part profits shown by this group displayed their characteristic stability.

Sharply lowered earnings were most notable in the case of non-ferrous metal producers. Profits of leading copper, lead and zinc producers were pinched between substantially lower prices and languishing industrial demand. Fortunately metal prices strengthened and all, or a fairly good part, of this gain held through the closing weeks of the year, obviating the need for heavy inventory adjustments. Recent higher prices were accompanied by improvement in the statistical position of non-ferrous metals, zinc excepted. With supply and demand brought into closer balance, the prospect of fairly steady prices throughout the first quarter, at least, appears to be reasonably assured.

In the last few weeks the fact that foreign copper prices were quoted ¾-cent below the domestic level of 11.25 cents has given rise to some well founded doubts over the ability of domestic producers to maintain current levels. Open market prices here, however, were more nearly on a par with foreign quotations with the result that there was a difference of $15 a ton between producers' and open market prices. Clearly such a situation cannot long exist. Either foreign and open market prices must rise or producers must lower their quotations and until the situation is clarified, buyers will probably continue to restrict purchases to their most immediate requirements. Domestic sales recently have been running considerably under normal, reflecting in some measure the familiar experience during the year-end inventory period, but to an even greater extent the unwillingness of fabricators to buy ahead as long as there is a chance that prices may be lowered. Fabricators' stocks are low but it is by no means certain that they would indulge in large scale buying even if prices were reduced. Price reduction at this time might induce an even more cautious attitude. There is a possibility, however, with both foreign and domestic production likely to be lower in the current quarter the pressure to reduce prices may be relieved. Rearmament activities, particularly abroad, continue to require substantial quantities of copper, while at home defense activities promise to be a greater factor in current demand for all non-ferrous metals. First quarter takings by the automobile industry will probably be about the same as in the fourth quarter of 1938, while the vigorous revival in building and construction augurs favorably for the demand from these sources. Electrical equipment orders have recently turned upward again and the possibility of revived utility construction is becoming more hopeful.

Zinc producers are threatened by increased Canadian competition as a result of the reduction in the duty on zinc, provided for in the Canadian-United States trade treaty. Zinc prices late last year were lowered $5 a ton. Stocks at the end of the year were large and constituted an additional threat to the price structure. Lead prices, on the other hand, were advanced late in December, and the increase was well justified by the metal's statistical position. Stocks of lead at the end of the year were the lowest since December, 1937.

All domestic silver *mined* prior to June 30, next, when the President's emergency powers over silver expire, will be purchased by the Government at 64.64 cents an ounce. After that it is anybody's guess, the prospect being wholly political. Earnings of gold mining companies promise to be sustained close to recent levels. Whatever decline occurs will probably be moderate reflecting somewhat higher costs and the working of lower grade ores.

Position of Leading Mining and Metal Stocks

COMPANY	Earned per Share 1937	Earned per Share 1938(E)	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Alaska-Juneau	1.28	1.20	13⅜	8¾	10	1.20	B-3	Ore reserves sizable. Dividends will probebly be maintained at present rate.
Aluminum Co. of America	13.26	3.50	129½	58	115	None	A-2	Earnings outlook promising, but common dividends not imminent.
*Aluminium Co., Ltd	11.83	15.00	112	94½	129	None	A-2	Increased aircraft production in Canada will enlarge current earnings. Shares have speculative promise.
American Metal	3.22	1.70	45	23	36	1.00	A-2	Current earnings may justify larger dividends.
American Smelting & Refining	6.54	3.00	58⅜	28⅛	45	2.25	A-2	Outlook somewhat better but no early change in present 50-cent quarterly dividends.
Anaconda	3.62	1.00	42⅛	21	30	0.50	A-2	Present prospects favor better first quarter earnings. May pay another dividend in near future.

Position of Leading Mining and Metal Stocks—Continued

COMPANY	Earned per Share 1937	Earned per Share 1938(E)	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Cerro de Pasco	5.18	3.50	59¼	26¼	43	4.00	A-2	Dividends appear reasonably secure despite failure to cover fully last year.
★Climax Molybdenum	2.85	2.75	60¼	32½	56	2.20	A-2	Earnings have been well sustained. Foreign sales heavy. Liberal dividend policy justified.
Dome Mines	2.12(a)	2.00(a)	34⅞	27⅛	33	2.00*	B-3	Company will probably continue dividends at 50 cents quarterly. Reserves ample.
Eagle Picher Lead	0.40	0.15	14⅝	7	12	0.10	A-2	Prospects have improved and shares have speculative merit.
Homestake Mining	3.58	3.50	66	48⅛	64	4.50	B-3	Large reserves and liberal write-offs for depletion, coupled with exceptionally liquid current position justify maintenance of liberal dividend.
Howe Sound	10.03	4.55(T)	53⅜	23½	48	3.50	A-2	Increased gold production aids net. Outlook better. Regular dividends secure.
★Hudson Bay Mining & Smelting	2.71	2.00	35⅛	20⅝	34	1.50	A-2	Earnings have held well. Could pay higher dividend. Shares have long term merit.
Inspiration Copper	1.60	0.35	19⅜	7⅛	15	None	A-3	High cost copper producer. Outlook improved, but dividends not in sight.
★International Nickel	3.32	2.00	57⅝	36⅞	52	2.00	A-2	Dividends secure. Shares have investment merit.
Kennecott Copper	4.60	1.80	51	26⅜	38	1.75	A-2	Current earnings likely to register a good gain accompanied by larger dividend.
Lake Shore Mines	4.15(b)	3.86(b)	58½	44½	48	4.00	B-3	Leading Canadian gold producer. Present dividends should be maintained.
Magma Copper	3.57	1.50	40½	18¼	33	1.50	A-2	Higher copper prices should bring improved earnings in the months ahead. No change in dividends.
McIntyre Porcupine	4.46(c)	4.51(c)	53⅞	35½	53	2.00	B-3	New ore vein will aid current results. Has large invesment holdings. Dividends conservative.
Miami Copper	0.97	0.10	14¾	5¾	10	None	A-3	High cost producer. Dividends not imminent.
National Lead	0.94	0.65	31	17⅛	24	0.50	A-2	Current earnings will reflect increased building activity and rising industrial demand. No change in dividends.
New Jersey Zinc	4.01	1.50	72½	45½	56	2.00	A-2	Outlook has improved and dividends likely to be maintained at present rate.
Newmont Mining	5.39	....	88⅞	42	78	3.00	....	Earnings last year probably equal to dividends paid. 50-cent quarterly rate likely to be continued.
★Phelps Dodge	2.51	1.10	47½	17⅝	40	1.00	A-2	Leading domestic producer of copper. Also important fabricating interests. Shares have long term potentialities.
St. Joseph Lead	3.64	0.90	49¼	25½	41	1.00	A-2	Largest domestic lead producer. Dividends likely to be continued at present rate.
Silver King Coalition	1.16	Nil	9⅛	4¾	6	0.35	B-3	Near term improvement not likely. Dividends omitted.
Sunshine Mining	3.63	2.45(T)	14⅜	8½	10	2.20	B-3	Prospects depend on silver policy of Government. Higher earnings not likely over near term.
U. S. Smelting, Refining & Mining	9.48	4.15	72¾	44¾	57	4.00	A-2	Earnings reflect lower prices for lead, zinc and silver. Some improvement likely over next several months.
Vanadium	2.22	0.25	28⅞	11½	27	None	A-2	Current earnings should show considerable improvement. Dividends not likely for some time.

*—Giving effect to 2-for-1 split-up. (a)—Based on present amount of stock outstanding. (b)—Fiscal year ended June 30. (c)—Fiscal year ended Mar. 31. (E)—Estimated. (T)—Actual earnings. ★—In our opinion the more attractive profit opportunities.

Electrical, Machinery and Business Equipment

Have Best Prospects in Their Group

Equipment companies are no exception to the truism that the prospects for individual branches of industry are governed by those for the broad level of industrial activity. The general run of these companies have long since felt a quickening in orders, not because of some strength inherent in their particular line, but because business in general is better and promises to improve further. Their profits for 1939 will in all probability exceed last year's, although by widely varying margins; and by no means all of the potential gains in earning power have been discounted in the price of the stocks.

To the investor interested in income, it will be significant to note the contrast in 1938 dividend payments between the groups brought under the heading of equipment. First place in this respect goes to the office equipments, every one in the tabulation making payments to stockholders. Their outlook, despite some current lag and possible restraints in foreign markets, continues generally favorable with prospects of material progress late in 1939.

The prospect for the rail equipment makers is complex, to say the least. If it could be assumed that traffic will enjoy a prolonged rise, then it would be obvious that equipment of all kinds would be purchased

in large quantities; there would be no question as to the earning power of the equipment companies. Even a fair amount of additional traffic would find railroad managements ready to cut costs by installing the modern engines and cars. Anxiety in Washington to help the capital goods industries and the railroads as well is very likely to result in easy financing terms for whatever purchases the carriers do decide upon. Considering the trend of general business, it seems highly probable that rail equipment companies are headed for a better period, although the moment for a really sharp pick-up in orders may be months away; and dependable income from their common stocks is, of course, not a present consideration.

Profits of the farm equipment industry have been disappointing over recent months, even though in some cases monthly sales volume has crossed that of a year earlier. Hence, the turn for manufacturers of agricultural machinery is likely to be gradual, and it is possible that the low point has not yet been seen. Prices of the issues tabulated here make allowance for the mediocre outlook, having failed to rally as they would on prospects of rapidly growing profits.

Expediency groups many heterogeneous enterprises under the heading of machinery and equipment, only a slight bond of common interest tying them together. The difficulties of appraising their outlook in generalizations are thus extreme. Perhaps the most practicable method of assaying the prospects of an individual company is to determine first its most important customers, whether motor manufacturers, mines, the oil industry or whatnot, and then to examine these industries for their potentialities as customers. Other sections of the Dividend Forecast will be of help in the second step, and it should be possible to draw sound conclusions as to the volume of sales in sight for 1939 as compared with 1938. In almost all cases the comparison will be encouraging.

Position of Leading Equipment Stocks

BUSINESS

COMPANY	Earned per Share 1937	Earned per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Addressograph-Multigraph	2.59	1.40	30	16⅝	26	1.40	B-2	Present rate should be maintained.
Burroughs Adding Machine	1.63	0.90	22¼	14½	18	0.50	B-2	Earnings and payments should show moderate growth.
★International Business Machines	10.42	11.00	185	130	180	6.00	B-2	Additional dividend of 5% in stock in 1938 and 1939. Regular rate secure.
National Cash Register	2.41	1.70	30⅝	12½	25	1.00	B-2	Unfilled orders above year ago; sales and profits should trend upward.
Remington-Rand	2.36	0.06(a)	17⅝	9⅝	15	0.90	B-2	Also paid preferred stock dividend. Leverage makes possible quick gain in common earnings.
★Royal Typewriter	2.15(b)	1.22(b)	79	30¼	68	3.00	B-2	Present dividend rate bolstered by pick-up in sales and earnings.
Telautograph	0.60	0.42(c)	5½	4¼	5	0.50	B-3	Earnings and dividends should continue stable.
Underwood-Elliott-Fisher	4.62(c)	1.63(c)	70½	41	64	2.50	B-2	1939 dividends will probably equal or exceed last year's.

RAILROAD

COMPANY	Earned per Share 1937	Earned per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
American Brake Shoe	4.01	1.00	52	23¼	50	1.00	C-2	Improving outlook suggests larger dividends.
American Car & Foundry	def.(f)	def.(f)	34⅞	12⅝	31	None	C-2	Although preferred is non-cumulative, sharp gain necessary before common can expect dividends.
American Locomotive	4.75	def.	30⅝	12⅜	27	None	C-2	Preferred accumulations must be cleared before common payments can be made.
American Steel Foundries	2.88	def.	40¾	15⅝	38	0.25	C-2	Dividend increase likely.
Baldwin Locomotive	0.32	def.	17¼	5	15	None	C-2	Prospective earnings likely to go toward building up current position, rather than dividends.
General American Transportation	3.77(c)	2.25(c)	59¼	29	58	2.25	C-2	Earnings are pointing upward again and dividends should be liberal.
General Railway Signal	1.41(c)	def.(c)	27⅛	12¾	25	0.50	C-2	Dividends will await a pick-up in railway control equipment purchases.
Lima Locomotive	4.83	def.	40¾	20¼	36	None	C-2	Wave of equipment buying would restore substantial earning power.
National Malleable & Steel Cast	4.02	def.	28¾	13¼	24	None	C-2	Automobile business helping reduce deficits, but dividends depend on railroad buying.
New York Air Brake	3.61	def.	48½	20	45	0.25	C-2	Probably in black figures, but no dividends expected until late 1939.
Poor & Co. "B"	1.59	def.	16¼	5⅛	15	None	C-2	Dividends improbable, although earnings may be quite rapidly restored.
Pressed Steel Car	1.08	def.	14½	4¾	13	None	C-2	Preferred issues non-cumulative, increasing chance of common dividends.
Pullman, Inc	3.21	0.15(c)	39½	21⅝	37	1.37½	C-2	Strong treasury position should continue current rate.
Superheater	2.31	0.38(c)	43½	17⅛	35	0.62½	C-2	Profit outlook good, but dividends may lag.
Symington-Gould, w.w	1.29(g)	def.(g)	10½	4¾	9	0.25	C-3	Pick-up should be fairly prompt, dividends relatively tardy.
Union Tank Car	1.70	1.35	23½	20	21	1.30	C-2	Quarterly rate of 30c or better seems assured.
Westinghouse Air Brake	2.01	def.	33¼	15¾	29	1.01	C-2	Small dividends may continue as long as earnings trend points favorably.
Youngstown Steel Door	3.32	0.25	31⅛	11½	28	0.25	C-2	Barely broke even in first half of 1938; profits and dividends should rise.

Position of Leading Equipment Stocks—Continued

AGRICULTURAL

COMPANY	Earned per Share 1937	Earned per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
J. I. Case	13.98(h)	NF	107½	62½	93	5.00	B-3	Dividends for current year may be affected by slow pick-up in farm purchasing.
Deere & Co.	4.25(i)	NF	25¼	13¾	19	1.35	B-3	Earnings may allow a somewhat larger year-end dividend.
International Harvester	6.31(i)	NF	70	48	56	2.15	B-3	Strong fiscal status assures continued payments.
Minneapolis-Moline Power Impl.	1.26(i)	0.12(i)	8	4	6	None	B-3	Accumulations on preferred prevent common dividends.
Oliver Farm Equipment	6.44	NF	32⅞	19⅛	27	None	B-3	Although bank loans eliminated, profits will probably be retained for a time.

MACHINERY & ELECTRICAL EQUIPMENT

COMPANY	Earned per Share 1937	Earned per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Allis-Chalmers	4.42	1.60	55¾	34¼	43	1.50	A-2	Covered dividends for year despite poor fourth quarter.
American Machine & Foundry	1.09	0.90	17⅞	10	15	0.80	B-3	Dividends at 20c quarterly rate are expected, with possible slight increase.
Babcock & Wilcox	2.69	def.	37	19	28	0.08⅓	A-2	Growing prospects for business may not bring profits early enough for 1939 dividends.
Black & Decker	2.82(j)	0.76(j)	24½	9¾	20	0.50	A-2	Small dividends should continue and may step up later in the year.
Bliss, E. W.	1.93	NF	16¾	4⅞	15	None	A-2	No dividends in prospect, although estimates indicate operations have kept out of red.
Bucyrus-Erie	1.20	0.15	13⅛	5⅞	13	None	A-2	First half pick-up will probably be gradual; no dividends.
★Bullard	3.19	0.75	29	13¼	28	0.25	A-2	Substantial pick-up in prospect as recovery gains momentum.
Caterpillar Tractor	5.24	1.70	58	29⅝	46	2.00	B-2	Lower profit margins might affect dividend rate, unless results improve soon.
★Chicago Pneumatic Tool	2.56	0.25	19¾	6⅞	19	None	A-3	Recovery in earnings should carry on, although dividends are not yet a consideration.
Cutler-Hammer	1.93	def.	29¼	13¼	23	None	C-2	Outlook for earnings good; dividends may come later in 1939.
Electric Storage Battery	2.32	1.00	35	21¾	30	2.00	C-2	Dividends are probably now being covered by earnings.
Ex-Cell-O Corp	1.69	1.20	25	8	23	0.60	A-2	Moderately larger dividends can be hoped for in 1939.
★Fairbanks Morse	3.48	NF	43	19½	43	0.25	A-2	Second half gained sharply over first in 1938; improvement should continue.
Food Machinery	4.10(j)	1.55(j)	37¼	18	33	1.00	B-2	Dividends will grow as general business extends gains.
★Foster Wheeler	d0.85	NF	29⅝	11	28	None	B-2	Accumulations on preferred will prevent common dividends but earnings point up.
★General Electric	2.20	0.61(c)	48	27¼	42	0.90	C-2	Turn in trend has been slow; dividend policy conservative.
★Ingersoll Rand	9.83	NF	119½	60	115	5.50	A-2	Good chance that $1.50 quarterly rate will be maintained.
Link Belt	4.47	1.25	50	29	44	1.25	A-2	Dividends should turn upward with earnings, the two having probably been equal last year.
Mesta Machine	4.67	NF	47½	26¾	38	3.00	A-2	Earnings may have equalled dividend payments in 1938.
Monarch Machine Tool	2.90	1.34(c)	20	12⅛	21	1.25	A-2	Company has enlarged capacity and presumably earning power.
Myers (F. E.) & Bro.	5.31(i)	4.11(i)	54	37¼	52	3.25	A-2	Steady profits and liberal dividends are in prospect.
★National Acme	2.85	0.35	14⅞	8⅛	14	0.25	A-2	Larger earnings and dividends expected as result of industrial pick-up.
National Supply	5.10	def.	23	12½	14	None	B-3	Preferred dividends will probably be resumed as oil drilling becomes active.
★Niles-Bement-Pond	7.46	NF	61⅛	24¼	58	2.00	A-2	Dividend rate could be stepped up; earned better than twice in 1938.
Square D	3.09	1.00	31	12½	28	0.75	C-2	Volume and earnings pointing toward better levels; dividends should increase.
United Engr. & Foundry	4.86	3.00	39¼	21⅞	32	2.50	A-2	Domestic business may lag in first half.
Van Norman Machine Tool	3.88	3.90	28¾	11	24	1.80	A-2	1939 dividends should exceed last year's.
Walworth	1.03	def.	10¼	4½	8	None	A-3	Dividends not in sight, but losses will be reduced quickly.
Wayne Pump	5.65(k)	3.25(k)	34⅜	17	31	2.50	B-3	Comparative results during current months encouraging.
★Westinghouse Elec. & Mfg.	7.53	3.00	124⅞	61¾	114	2.50	C-2	Outlook for later in the year is for higher earnings followed by larger dividends.
Weston Electric Instrument	2.10	0.35(c)	21	9½	20	0.50	C-2	Gradual retracement of downtrend in profits expected.
Worthington Pump & Machinery	3.67	def.	27¼	11¼	21	None	A-3	Fairly prompt resumption of preferred dividends and clearing of small arrears expected.

NF—Not available. E—Estimated. (a)—6 months ending Sept. 30. (b)—Quarter ending Oct. 30. (c)—9 months ending Sept. 30. (d)—Deficit. (f)—Year ending April 30. (g)—Year ending Jan. 31. (h)—10 months ending Oct. 31. (i)—Year ending Oct. 31. (j)—Year ending Sept. 30. (k)—Year ending Nov. 30. ★—In our opinion, the more attractive profit opportunities.

The Investment Clinic

How to Invest $5,000 — $10,000 — $25,000

Conducted by J. S. WILLIAMS

THIS department has received numerous letters from readers complaining of the difficulty which they have experienced in finding suitable investment securities affording a reasonable and dependable income yield. Most of these letters appear to have been written by individuals who derive all of their income, or at least a substantial portion of it from bonds, mortgages, and preferred stocks; they are not particularly interested in capital appreciation or speculative gains but are compelled to employ their capital in such a manner as to yield the maximum income consistent with safety or a normal investment risk. In most instances the problem of these readers has arisen as a result of the large volume of corporate refunding operations which have taken place over the past several years. Availing themselves of extremely low interest rates and the huge reservoir of unemployed capital many corporations, particularly in the public utility and industrial groups, have been able to effect important savings in fixed charges by refunding 4, 4½, 5 and 6 per cent bonds through the medium of new issues bearing a lower rate of interest. Only recently Sun Oil Co., sold privately $12,000,000 10-year 2⅞% debentures, and a high grade industrial bond such as the Standard Oil of N. J. 3's due 1961 are selling to yield a current return of only 2.8 per cent and the yield to maturity is only about 2.6 per cent. Even 5 and 6 per cent preferred stocks have been replaced by issues paying 4 and 4½ per cent, while the yield on high grade non-callable preferred issues is but little more than that afforded by high grade bonds.

To be sure the corporate policy of refunding outstanding bonds and preferred stocks is a sound business practice. In effect, however, it benefits common stockholders, leaving bond or preferred stockholders the alternative of accepting the new lower yielding securities or endeavour to replace them with other issues involving no sacrifice in annual income. The trouble with the latter procedure, as our readers have discovered, is that the choice of suitable replacement issues has become more and more circumscribed. The following letter is typical of their dilemma:

On December 9 last, $10,000 *par value of Detroit City Gas* 5's 1950 *held by me were redeemed at* 105. *Since then I have sought to re-invest these funds in other bonds which would give me the same yield. I have also considered preferred stocks. Thus far I have been unable to make any decision. Most bonds of comparable quality yield a much lower return. My circumstances do not permit to take any chances with my capital but I am not particularly concerned with normal market fluctuations as long as they are not caused by anything detrimental to a regular income return. I would be very grateful for any suggestions which you might care to offer.*

In replying to this reader we not only suggested several bond issues but also two preferred stocks. Our suggestions are set forth in the accompanying table. In order, however, that these suggestions may have as wide application as possible among other readers confronted with a similar problem, specific sums were alloted to each security and in units which could be broken up to meet requirements for $1,000, $2,000, and $5,000, as well as the larger amount mentioned by the above writer. A brief analysis of the several issues follows:

Arkansas Power & Light 5's 1956 are a first mortgage on substantially all of the company's property, valued in the 1937 balance sheet in excess of $60,000,000. The amount of bonds outstanding totals $35,000,000. The company is an operating unit and control is vested with Electric Power & Light, a holding company. Earnings over an extended period of time have afforded adequate coverage for fixed charges. Fixed charges were earned 1.75 times in 1937 and for the 12 months to Nov. 30, last, coverage was 1.67 times. So far as is known at this time the company is engaged in no rate litigation nor is it threatened with Government or municipal competition in its territory. The bonds are callable at

Investing for Income

BONDS

Issue	Recent Price	Cost	Annual Income
4m Arkansas Pwr. & Lgt. 1st 5's 1956 (104¼)	104	$ 4,160	$200
4m Purity Bakeries Deb. 5's 1948 (104)	98	2,080	200
2m Mead Cop. 1st 6's 1945 (104)	104	2,080	120
		$10,160	$520

PREFERRED STOCKS

Issue	Recent Price	Cost	Annual Income
50 shares Consolidated Edison $5 (105)	103	$ 5,150	$250
50 shares Colgate-Palmolive-Peet 6% (102½)	104	5,200	300
		$10,350	$550

104¼ and are currently selling at 104.

Purity Bakeries Corp., 5's 1948, while having no specific lien on the company's properties, are outstanding in the amount of $5,800,000 and under normal conditions the company has been able to provide for interest and sinking fund requirements by a comfortable margin. Earnings last year recorded substantial gains and interest coverage which was 1.86 times in the year ended January 1, 1938, will be materially improved in the latest fiscal year. The issue is currently quoted around 98 and is callable at 104.

Mead Corp., 6's 1945 outstanding in the amount of $6,600,000 are secured by a first mortgage on properties of the company having a depreciated value of about $22,200,000 at the end of 1937. The company is an important manufacturer of magazine and book papers and paperboard. Notwithstanding the highly competitive conditions and unstable price situation which have arisen from time to time in the company's field, earnings have been more than sufficient to meet interest obligations. Earnings were sharply lower last year, yet were adequate to meet interest charges. Recently the company's prospects have improved and the bonds at 104 afford a generous yield. The issue is callable at 104, and for sinking fund at 102.

Consolidated Edition $5 preferred stock offers sound investment value. The company serves gas and electricity to New York City and vicinity and derives about 80 per cent of its revenues from the sale of electric power and light. Financial position is excellent; credit standing is high, and dividend requirements are covered regularly by an excellent margin. In the twelve months ended Sept. 30, last, earnings available for preferred dividends were equal to $17.36 a share and fixed charges and preferred dividends were covered 1.87 times. The preferred shares earned the equivalent of $16.30 in 1937 and $17.77 in 1936. The issue is callable at 105.

The 6% preferred shares of Colgate-Palmolive-Peet are the company's senior capital obligation and at the end of last June there was 242,882 shares outstanding. Adverse conditions, including large inventory write-offs, in 1937 were responsible for earnings equal to only $3.21 a share on the preferred stock, which contrasted with $16.10 in 1936. Last year is expected to show marked improvement in the company's earnings and preferred dividends were probably covered comfortably. Financial position is excellent. Current assets, including more than $13,000,000 in cash and marketable securities totaled $46,229,657, at the end of last June, while current liabilities were only $10,220,760. Although the call price of 102½ compares with current quotations of 104, this disadvantage is offset by the liberal yield.

While it is conceded that the several issues suggested are not the highest grade, all of them qualify in fairly substantial measure as sound and dependable income producing mediums. All of them are well seasoned marketwise and at no time has the security of interest and dividends been threatened. Only medium grade relatively, the actual investment risk which they involve may actually be more apparent than real. Where income is a vital consideration, and transitory market fluctuations not of immediate concern, any or all of these issues would qualify for the purposes outlined by our reader.

A $25,000 Common Stock Investment List

Issue	Recent Price	1938-39 Price Range High	1938-39 Price Range Low	Divs. Paid 1938	Total Investment
50 shares Inland Steel	87	95	56¼	2.50	$ 4,350
50 shares Crane Co	35	42½	19	None	1,750
50 shares J. C. Penney	78	85½	55	4.25	3,900
50 shares Bullard Co	28	30	13¼	0.25	1,400
50 shares International Nickel	53	57⅝	36⅞	2.00	2,650
50 shares General Electric	41	48	27¼	0.90	2,050
30 shares Dow Chemical	130	141	87⅞	3.00	3,900
50 shares Holland Furnace	46	52⅜	17	2.00	2,300
50 shares Commercial Investment Trust	55	64	21½	4.00	2,750
					$25,050

A Common Stock Program for $25,000

In the final analysis all common stock values are determined by earnings—not earnings in the immediate past but potential earnings. Fluctuations in common stock values reflect the attempts of countless investors and speculators to evaluate individual issues in terms of their possible earning power some months ahead. Thus, the great majority of common stocks will doubtless appear to be generously priced when it becomes possible to compare them with actual earnings for 1938. But if the more hopeful aspects of the current business picture actually materialize present prices for many common stocks may well prove to have been quite reasonable. As this prospect, and admittedly it must perforce be a speculative one at this rather advanced date, appears closer to realization, common stock values are likely to be marked up more or less proportionately.

It follows then that any selection of common stocks, made with a view to realizing capital gains this year, would emphasize issues of companies identified with industries in a position to record the greatest percentage of improvement over 1939. If the precedent established in other periods of expanding industrial activity is again borne out in 1939, the probabilities that some of the most spectacular gains precentagewise will be scored by the shares of marginal companies—issues of the more radically speculative type and the choice of which should be attempted only by individuals willing and able to assume the greater risk involved. It should be possible, however, for the more conservative type of common stock investor to make a selection of issues from the better grade common stocks and still obtain for himself profitable participation in the anticipated business improvement in the months ahead. A list of such issues, involving the investment of approximately $25,000, accompanies this discussion.

In selecting these issues this department has been guided in the choice of industrial representation by surveys conducted by the staff of THE MAGAZINE OF WALL STREET. A summary of these surveys appeared in the December 31, 1938, issue.

Through the medium of the issues comprising this list, the investor is afforded a (*Please turn to page* 461)

As the Trader Sees Today's Market

Four Decades of Forecasting—
The Business-Market Ratio

BY FREDERICK K. DODGE

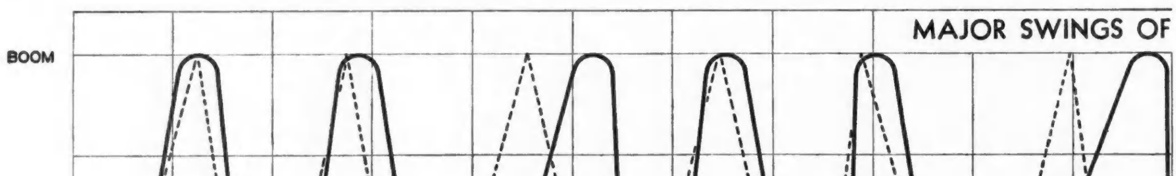
WHAT is the best, the clearest, earliest and most reliable of business barometers? Answer—the major swings of the stock market. Sometimes we get a good indication from this or that index, from bank clearings or automobile production or steel orders. Frequently a good prediction can be made on the basis of monetary factors, of political trends. No one person can follow all the statistics which may possibly conceal a clue. But the one barometer that almost invariably makes up its mind ahead of time and has a practically perfect record for its prognostications is the one that is plainest for everyone to see, printed in the daily papers.

Most people are willing to concede the stock market's forecasting ability in theory—although the impression is general that it has slipped in this respect over recent years—but too many find it difficult to accept the implications of rising security prices when business is still on the downgrade, or the converse situation. The tendency is to believe the facts of falling employment, closing factories and mines, and to explain away a market which refuses to go lower by means of any of the stock phrases about artificial speculative prices. Or to rely on humming activity in the business world rather than a market which has topped out. That is the way both traders and business men go wrong—fighting an underlying trend which all the odds of experience favor tremendously.

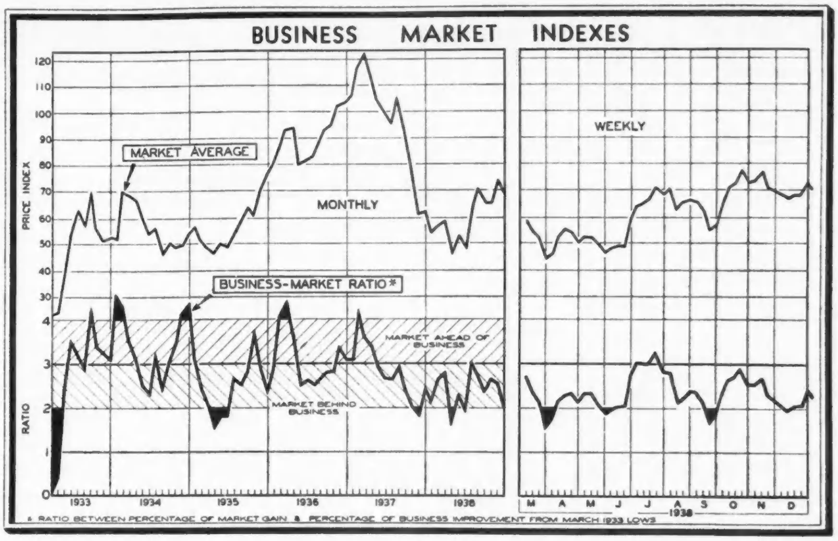
The actual record of the market as a barometer has always been difficult to analyze, because while stock prices could be easily broken down into the phases leading from peak to nadir and back again, agreement on the precise timing of business slumps and booms has been almost impossible to reach. The National Bureau of Economic Research has done a thorough job of digging in the maze of statistics and opinions, using 487 statistical series as aids in arriving at the months which marked the centers of the peaks and troughs of business. Their dates are used on the chart running across the bottom of these two pages, except that in the two most recent turns a consensus of other opinions is used; and with the rounded tops and bottoms of industrial activity are compared the sharper turning points in the market.

On this basis stock prices registered their lows from one to several months ahead of each low point in business over the last forty-two years. Each one of those occasions when the market began to rise while business continued to decline found numerous hard-to-convince bears who preferred the facts of industry to the facts of stock prices. Each time they were wrong.

This is not an argument for rampant bullishness at the present point, nor a plea that conservatism be sacri-



ficed because the market has turned up. The present trend of business may be slated for an early reversal or it may last for many months. The important thing for either trader or business man is to identify the trend and to do so as early as possible after it sets in; and for this purpose no indicator can be more significant than stock prices.



When next the market gives signs of having passed a top, remember this: every major downturn in the market has meant a business reaction, large or small, in the past; no other excuse for a definitely falling market is acceptable, although many are always offered. Prices may signal the turn long before it occurs, as in 1901, 1906 and 1916. Once in the experience of the current century the market failed in the timeliness of its warning and kept on through the late summer of 1929 when business had already passed its peak. But always the cause of a market break has been the one which observers have been least willing to assign to it—an approaching slump in business.

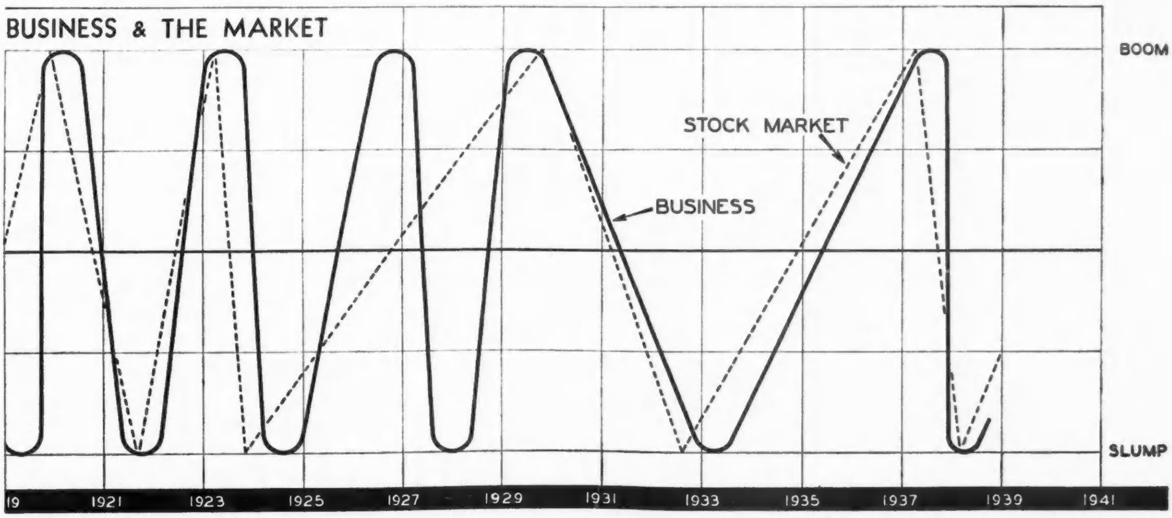
It will be noted that one more swing in business than in the stock market appears on the chart. A dip in the market actually occurred early in 1926 and another later in the same year, but they were minor in size and duration. The message of the market was that the slump in business would be unimportant, not deep enough to justify disturbance of investment positions. Reliance on the business trend rather than the action of the market would have been a serious mistake in 1927.

Needless to say, in insisting upon a point which has been made and argued about innumerable times before, the purpose is more than to illustrate a theory with a bit of history. It is to emphasize ahead of the occurrence what the stock market can do in the way of interpreting business statistics. The turns of 1937 and 1938 gave examples of this forecasting and interpretive ability equally as impressive as those of 1921 or 1901.

The Business-Market Ratio

In response to many requests, the chart showing the Business-Market Ratio is reproduced here with figures brought up to early January on the weekly scale. The year-end dip in business activity has acted to raise the ratio somewhat above the levels of a month ago, but in comparison with the long-term normal, the relationship is still favorable to stock prices.

Readers who have been keeping their own figures on the Ratio have doubtless noticed that The Magazine of Wall Street's Index of Business Activity is now appearing as the first of the "Weekly Indicators" in the Business Analyst (blue section). These are necessarily preliminary figures, subject to minor revision at times. Where later revisions are of any consequence, they will be noted in the Business Analyst. (*Please turn to page* 462)



For Profit and Income

Utility Portent

The $105,000,000 refunding operation of North American Company that will be offered in February is of much more than ordinary interest. It is the largest utility offering in a number of years and its success may mark the turning point in returning public confidence toward public utility securities. The offering will be $70,000,000 in debentures in three series bearing interest from 3½ to 4%, and $34,829,000 in 5¾% preferred stock of $50 par value. The purpose is to redeem all outstanding obligations of North American Edison Co., an intermediary holding unit, and to refund NA's own outstanding 5% debentures at a lower interest rate. Coupled with Commonwealth & Southern's announced construction expenditures for 1939 of $33,000,000 on its northern properties, the North American offering gives some faint inkling of the potential capital needs of the utility industry. Given a tolerant governmental attitude the money that would flow into heavy industry would be tremendous. Since the November elections the administration attitude has already shown some change and regardless of the forthcoming T V A decision by the Supreme Court recent buying of utility stocks has been considerably more confident.

From Under the Guillotine

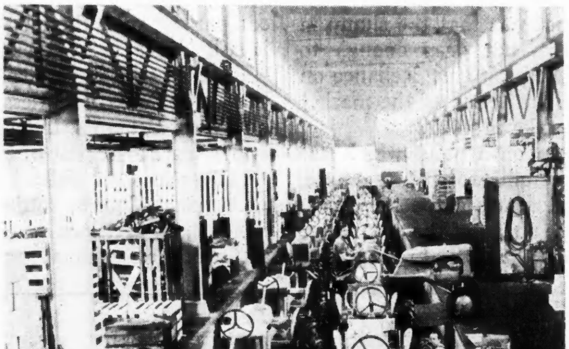
Chain store stocks, particularly chain groceries, have taken a new lease on life since the lifting of political pressure to tax them out of existence as contemplated in the Patman bill. Support by union labor has been largely responsible, for it was belatedly realized that not only do the chains employ thousands but they keep the cost of food within reach of the poorer people.

Outlook for Paper

The newsprint industry probably faces 1939 with the best earning prospects in a decade. Publisher's stocks are low, the present $50 a ton price bears evidence of some permanence and permits a fair profit to manufacturers. Kraft paper and Kraft board prices, on the other hand, have weakened from radically increased production but the industry is growing and new uses and improved general business should keep this branch on a profitable basis. International Paper & Power, the largest company in the field, sold its unprofitable Newfoundland subsidiary last summer, and both the common and the preferred can be expected to reflect substantially improved earning prospects over the coming year.

Television

One of several basic patents on electronic television was awarded to Dr. Zworykin and assigned to Westinghouse Electric & Mfg. Co. The patent contains some 40 claims covering the "tele-eye" in which transmission centers. In practical broadcasting electronic television has displaced the mechanical



Courtesy Allis-Chalmers

Allis-Chalmers' bookings, after a long decline, are again trending upward.

system which used motor scanning discs. Television programs in 1939 will probably be broadcast only from New York City (World's Fair) and Los Angeles.

New Southern Crop

The rise in residential building coinciding with the war in China raised the price of tung oil, a drying oil similar and in some respects superior to linseed used in paints and varnishes, 75%. Manchurian perilla, linseed and other oils were substituted and factory consumption of tung or Chinawood oil in 1938 decreased 30% to 90,000,000 pounds. Southern states are setting out and cultivating tung trees and while the present crop will only total 5,000,000 pounds acreage is expected to expand greatly in the next few years.

Bank Stocks

Analysis of the 15 leading New York bank statements as of December 31, shows a rise in deposits of one billion dollars in round figures over a year ago and a drop of half a billion in loans and discounts. Stocks of the same banks sold at an average of 16.7 times annual earnings for 1938 on the last day of the year and at an average yield of 4.96%. While low interest rates depress earnings many sound bank stocks are selling at only about double their lows of the last nine years and at about one-tenth of their 1929 highs.

Developments in Companies Recently Discussed

General Electric announced that it has started construction of radio receiving sets adapted to the reception of broadcasts by the new Armstrong method of transmission. The new system, developed by Professor E. H. Armstrong of Columbia University, obviates static, interference, and tube noises, and opens up a new band or air channel from 10 metres to possibly as low as 1 metre. The General Electric receivers when produced on a quantity basis will cost no more than other good sets and will be able to receive both the old and the new kinds of broadcasting.

Sears Roebuck prices in their Spring and Summer catalogue average about 3.62% lower than a year ago, and extend throughout their entire line the privilege of time payments on orders of $10 or more. Montgomery Ward prices, while containing some reductions also contain some small advances, the latter predominating.

Cutler-Hammer Incorporated's incoming orders began rising in September and continued to show improvement through the final quarter. November and December bookings were heavier than for any months of the year and were 22% ahead of the average for the first ten months. As the result of increased orders the backlog has risen sufficiently to keep the plants operating at present rates for about two months. The company enlarged its manufacturing schedule and increased its payroll during the fourth quarter.

Union Oil Company of California has completed two new wells. One in the Rio Brava field in the San Joaquin Valley, its seventh in that field, was flowing at 6,000 barrels daily but was pinched in to 300 daily to conform with curtailment arrangements. The other in the Rosecrans field is Union's twelfth well there and is producing 1,523 barrels a day.

United States Rubber Company has been charged with violation of the Robinson-Patman Act in a complaint filed by the Federal Trade Commission. The complaint alleges various discriminations as to price in violation of the act. The Robinson-Patman Act was aimed originally at the chain store policy of obtaining a price concession on large purchases and has been applied by the FTC to other types of business. With mounting congressional opposition to reform legislation the chances favor amendment of business-hampering laws. Meanwhile, if suits are filed, they will probably take several years to pass through the various courts. It is not believed that the favorable long-term prospects of the company have been altered by the complaint.

Sun Oil Company recently sold $12,000,000 2⅞% debentures to Equitable Assurance Society, proof of the high credit rating of a strong well-diversified oil company. The money is to be used for Houdry process refining units at Marcus Hook, Pa., discussed on page 420 of this issue. Sun's shipbuilding subsidiary has obtained a good share of the growing new fast tanker business, built as possible auxiliary fleet reserves under the replacement program of the Maritime Commission.

Reynolds Report Disappointing

The Reynolds Tobacco report shows inventories up one million to a record high of $139,057,724 at the close of 1938, continuing the upward trend that has nearly doubled inventories since 1932. Over the same period cash has declined from $60,340,554 to $4,681,972. Costs are up and net is lower as compared with last year due to higher federal and social security taxes, higher tobacco costs, and increased freight rates. Sales were off 6.84%. In November, following three previous 60c payments, the quarterly dividend was reduced to 50c. While the report is disappointing the cash position is still strong. Unless sales increase, however, the prospect is for continuance of the lower dividend rate.

All Ears

The 20% reduction in duties on slab zinc and zinc ores is costing the zinc industry about $6,000,000 a year. * * * Major General H. H. Arnold, chief of the Army Air Corps, told the House Military Committee that within three years this nation can be turning out 12,000 airplanes a year. A motor official stated that if any of the three big motor com-

(*Please turn to page 462*)

Low Priced Stocks for Appreciation

Selected by THE MAGAZINE OF WALL STREET STAFF

Hercules Motors

Recent Price	1938-39 Price Range High	Low	Estimated Earnings 1938
16	20¼	10	0.50

Hercules Motors Corp. is engaged in the manufacture of internal combustion engines, both gasoline and diesel. Although formerly the company was chiefly dependent upon demand from motor truck manufacturers, its scope in recent years has been considerably broadened and engines have been developed for industrial and agricultural uses. Some measure of the company's success in these new fields is indicated by the fact that agricultural and industrial outlets now account for the bulk of sales volume. Although unit sales of gasoline motors exceed those of diesels, sales of Hercules' high-speed diesel motors, through the steadily increasing application of diesel power, provide the company's principal growth factor.

Modestly capitalized, Hercules Motors has been able to earn something for its shares in every year, except 1932. Even in that year, the loss after depreciation and taxes was less than $130,000. Since that time earnings have risen steadily and net of $721,223 in 1937 was the largest in the company's history, with the exception of 1929, when net totaled $1,139,769. Applied to the 311,000 shares of stock, representing the company's entire capitalization, earnings in 1937 were equivalent to $2.32 a share, after surtax on undistributed profits. Net in 1936 was equal to $1.39 per share. Last year, earnings reflected the steadily receding level of industrial activity and for the nine months to September 30, last, net profit totaled only $69,089, or the equivalent of 22 cents a share, as compared with $2.86 per share earned in the corresponding period of 1937. For the full 1938 year, it is probable that earnings did not exceed 50 cents a share. In 1937 dividends totaling $1 were paid, but last year earnings did not justify further disbursements.

On the basis of the company's showing over the past ten years, it is rather evident that sales and profits may be expected to conform closely with the trend of general business activity. With the benefit of improved industrial prospects at this time, it appears a reasonable assumption that current results will register substantial improvement. Moreover, aside from expansion in sales to motor truck manufacturers, agriculture and industry, sales may be further augmented by larger export sales of trucks and the proposed mechanization of various branches of the U. S. Army.

In relation to the company's demonstrated earning power under normal conditions, prevailing quotations for the shares of around 16 appear quite reasonable, suggesting the presence of interesting speculative possibilities for price appreciation.

Allied Stores

Recent Price	1938-39 Price Range High	Low	Estimated Earnings 1938-39
10	13½	4½	0.65

Allied Stores Corp. operates a department store system comprising fifty-three units, located throughout the United States, with the greatest concentration in the Middle and Far West. It is the company's policy to operate each store as a single unit and not as a chain, although it is a logical assumption that all of the units share in the advantages of concentrated purchasing power and centralized managerial direction. The company's system was conceived in 1928, but the untimely advent of the depression, shortly thereafter, deprived it of a reasonable opportunity to coordinate its activities and develop earning power. A plan of recapitalization effected several years ago cleared away all preferred dividend accumulations and provided the company with a capital structure more readily supportable under normal conditions.

In recent years, sales of Allied Stores have recorded substantial gains. For the fiscal period ended January 31, 1936, net sales totaled nearly $90,000,000. In the following fiscal period, sales totaled $103,343,508 and for the year ended January 31, 1938, net sales amounted to $107,556,225. Net profit in the latter year of $2,904,206 was equal, after all charges, preferred dividends, and a surtax of $226,064 on undistributed profits, to 96 cents a share on 1,808,153 shares of common stock. In that year, earnings reflected increased operating costs and taxes, as indicated by the fact that profits in the 1936-37 period totaled $3,406,448, notwithstanding the fact that sales were $4,200,000 under the 1937-38 level. The company's

latest statement covers the twelve months ended October 31, last, in which period net of $2,324,592 was equal to 64 cents a share for the common stock, as contrasted with $4,001,761 in the corresponding months of 1937. The latter figure was equal to $1.59 a share.

Ahead of the common stock is a total funded debt of about $20,000,000 and 232,401 shares of $5 preferred stock. At the close of the 1937-38 fiscal period, financial position was comfortable.

Presumably, sales of Allied Stores System have felt the impetus of increasing employment and purchasing power in recent months and this trend promises to be accelerated in the months ahead. Recently quoted around 10, the shares would appear to qualify as an attractive speculative vehicle among lower priced issues.

Container Corp.

Recent Price	1938-39 Price Range High	1938-39 Price Range Low	Estimated Earnings 1938
15	17¾	9¾	0.10

Container Corp. of America is the foremost manufacturer of a wide variety of paperboards, utilized in various forms and combinations in the production of paper boxes, cartons, packing and shipping containers. Some measure of the scope of paperboard consumption is indicated by the fact that there is hardly a manufacturing industry that does not use paper shipping containers, to say nothing of the myriad of manufacturers whose products are marketed in some form of paper box or carton. Among the company's customers are included many of the processors of nationally advertised food products, dairy products, medicinal preparations and alcoholic beverages. The company's manufacturing activities are closely knit and facilities include seven paper mills located with particular regard to supply of raw materials, and the company's five manufacturing units are located at strategic industrial points.

Capitalization is comprised of funded debt of $6,472,000 and 781,253 shares of capital stock. At the end of last June, current assets, including cash of $1,385,994, totaled $5,771,049, as compared with current liabilities of $1,294,473.

Although a considerable portion of the company's output is taken by manufacturers of consumers' goods, of the type less sensitive to variations in the volume of industrial activity, this condition has not prevented earnings of Container Corp. from fluctuating widely with the rise and fall in the tide of general business. In the past, competition in the paperboard industry has shown a tendency to intensify with any decline in volume. The industry as a whole is somewhat handicapped by excessive production facilities.

Reflecting the adverse combination of declining consumption and lower prices, operations of Container Corp. in the first nine months of 1938 resulted in a net loss of $104,106, comparing with net profit of $1,745,756, or $2.24 a share on the capital stock in the same months of 1937. Operations in the final quarter of the year, however, are understood to have improved materially, perhaps to a degree sufficient to eliminate losses in the earlier months and permit the company to show a modest profit. Moreover, demand for paperboard has shown an encouraging increase and it has been possible to advance prices moderately. On the assumption that this latter trend will continue to manifest itself with increasing effectiveness this year, the company's earnings may well approach 1937 levels, when record-breaking profits were equal to $2.28 a share for the stock. If such proves to be the case, recent quotations around 15 would be subject to a substantial upward adjustment.

National Acme

Recent Price	1938-39 Price Range High	1938-39 Price Range Low	Estimated Earnings 1938
14	15⅝	8⅛	0.30

A leading factor in the machine tool industry, National Acme Co. specializes in the manufacture of single and multiple spindle automatic screw machines, turret lathes and chucking machines. Other products include screw machine products and threading tools. Although the bulk of the company's orders are booked with the automobile industry, other important industrial consumers include railroads, electric equipment manufacturers and munitions makers.

There is no doubt that at the present time there exists a huge potential demand for new industrial machinery and machine tools. That some portion of this potential demand may be translated into actual orders in the months ahead is promised by the prospect of an increasing volume of new plant construction, as well as national defense activities. Reliable estimates indicate that the percentage of obsolescent machine tools in government arsenals alone is in excess of 65 per cent. The percentage of obsolescence and replacement needs in industrial equipment is nearly as great. In recent months the volume of machine tool business has been sustained mainly through the receipt of large foreign orders, but in November and December there occurred a noticeable pick-up in domestic orders, with business from this source in December attaining the highest level reached in 1938.

In 1937, National Acme enjoyed one of the best years in its history and net of $1,426,413 compared with $688,373 in 1936. In these years, earnings were equal to $2.85 and $1.37 a share, respectively, on the 500,000 shares of capital stock. Earnings last year, however, were sharply lower and for the nine months to September 30th, net totaled only $70,871, as compared with $1,196,155 in the same period of 1937. Largely responsible for the slump in the company's earnings in 1938 was the sharply reduced activity in the automobile industry. For all of 1938, it is unlikely that earnings were much in excess of 30 cents a share for the capital stock. Last September the company paid a dividend of 25 cents, the only dividend to be paid in 1938.

Currently, prospects favor an appreciable improvement in the machine tool industry and National Acme, specifically, would appear to be in a position to stage a strong comeback in orders and profits. On the strength of this prospect, the shares, recently quoted around 14, invite favorable speculative consideration.

Sharon Steel

Recent Price	1938-39 Price Range High	Low	Estimated Earnings 1938
19	23	10	Nil

Sharon Steel Corp. is one of the smaller steel units and is engaged principally in the manufacture of strip steel, including hot and cold roll strip, galvanite, ternecoat and stainless steel strip. A subsidiary manufactures hot and cold rolled and galvanized sheets.

Notwithstanding the company's heavy concentration in the lighter forms of steel, for which demand enjoys a greater measure of stability, earnings last year slumped sharply. Gross sales for the nine months to September 30, last, were $6,564,895, a decline of about $10,500,000 from the level in the corresponding months of 1937. Higher costs were an additional handicap and after a depreciation allowance of $549,000, the company showed a loss for the nine months' period of 1938 of $362,980. In the comparable period of 1937, the company showed a profit of $1,646,606, or the equivalent of $3.79 a share for the common stock. In the third quarter of last year, on sales of $2,575,439, the company was able to show a loss of only slightly more than $19,000, indicating that it would require only an additional moderate improvement to attain the break-even point. Thus, the higher average level of steel activity and industrial production in the fourth quarter would seem to justify the assumption that the company's operations in the final three months showed a fair profit.

Sharon Steel has no funded debt and the only capital obligation ahead of the 287,774 shares of common stock is 59,720 shares of $5 convertible preferred stock. Financial position, at last reports, was satisfactory.

In a period of expanding steel operations, the company's modest capitalization should prove a decided advantage, permitting per-share earnings on the common stock to rise rapidly. Some measure of possible earnings under more favorable conditions is suggested by net equal to $2.83 a share in 1937 and $3.04 a share in 1936. Frankly speculative, the shares of Sharon Steel common stock nevertheless embody elements which should add substantially to their value in any sustained period of rising industrial activity.

Bridgeport Brass

Recent Price	1938-39 Price Range High	Low	Estimated Earnings 1938
14	16	5⅜	Nil

Activities of Bridgeport Brass Co. embrace the manufacture of brass, copper and other alloys in various forms. The company also manufactures an extensive line of fabricated products, such as tubular plumbing goods, automobile tire stems, etc. Principal industrial outlets for these products include automobile accessory and railway equipment manufacturers and the public utility, railroad, building and construction industries. For the most part, the company's fortunes are determined largely by the demand for durable or capital goods.

It is this latter characteristic which explains the company's inability to show profits in the three years ended in 1932. Since that year, however, earnings have registered consistent improvement. Of recent years, 1936 was the most profitable. In that year, the company's net profit totaled $1,076,201, or the equivalent of $1.46 a share on 739,592 shares of capital stock outstanding at the end of that year. In 1937, despite an increase of 21 per cent in gross sales, higher taxes and labor costs cut net income to $733,181, or the equivalent of 79 cents a share on 926,990 shares of capital stock outstanding at the end of that year. Inventory adjustments were also a factor in the lower earnings for 1937. Until the end of September last year, operations had resulted in a loss of $434,816, as compared with a net profit of $931,152 in the same period of 1937. Operations in the third quarter, however, showed some improvement and the loss for that period amounted to less than $20,000, as compared with a loss of $111,150 in the June quarter. The probabilities are that the final quarter registered further improvement.

During the past several years the company has spent some $4,000,000 in enlarging its plant facilities, the advantages of which may be counted upon to become increasingly effective with any further revival in general industrial activity. Affording an indirect stake in a more vigorous recovery of heavier industries, the shares of Bridgeport Brass Co. at recent levels around 14 may conceivably prove a profitable speculative acquisition.

Pure Oil

Recent Price	1938-39 Price Range High	Low	Estimated Earnings 1938
10	13½	8¼	0.15

A combination of adverse circumstances resulted in a marked decline in the earnings of Pure Oil Co. last year. Prices of refined products averaged lower than in 1937; gasoline sales declined 6.6 per cent; while sales of other refined products, particularly to industrial consumers, were off 24 per cent in the first nine months of 1938. As a consequence, the company's net profit for the nine months to September 30th, last, totaled only $3,734,411, equal after preferred dividends, to 20 cents a share on the common stock, as compared with indicated profits of $8,618,687 or $1.43 a share for the common stock in the corresponding months of 1937. For all of 1937, Pure Oil earned $11,403,805, or $2.15 a share for the common stock. Earnings for the full 1938 year may possibly fall below the nine months' level, depending upon the extent of the year-end inventory adjustments necessary to reflect lower crude oil prices.

Granting, however, that the drastic decline in the company's earnings last year was due to circumstances beyond its control and that it is largely "water over the dam," prevailing quotations for the shares around 10 would appear to have adequately discounted the poor showing for 1938. The outlook for the coming year, on the other hand, shapes up in a more promising manner for the oil industry as a whole. Assuming that the improved prospect is actually borne out, it should be substantially reflected in sales and earnings of Pure Oil Co. A more detailed discussion of the current outlook for the oil industry will be found on page 419 of this issue.

In 1937, Pure Oil Co. retired all of its funded and bank indebtedness and retired an (*Please turn to page* 462)

The Magazine of Wall Street's Common Stock Price Index

Thirteenth Annual Revision

WITH this issue THE MAGAZINE OF WALL STREET'S Common Stock Price Index enters upon its fourteenth year. Based upon weekly closing prices of all active comon stocks listed on the New York Stock Exchange, the Index records the more important price movements of industrial group averages and of the market as a whole with far greater fidelity, especially in these days of highly selective activity, than any index or averages composed of stocks weighted by the number of shares outstanding; since the latter method of computing is tantamount to emphasizing the price movement of a limited class of issues with large capitalization.

It will be recalled by those familiar with the Index that judgment plays no part in selecting the issues to be included. Exclusion or inclusion is based on a purely mechanical rule that common stocks in which transactions during the preceding calendar year amounted to 500,000 shares or more are added to our list automatically in the next annual revision, while issues in which the year's volume of transactions fell below 100,000 shares are dropped from the Index. All stocks, regardless of size of the issuing company, are accorded equal weight.

An experience of thirteen years in computing the Index and watching its behavior has amply confirmed the wisdom of this procedure; since it has served throughout the period to keep the Index highly representative of the market as a whole, and has at all times caused it to cover between 80 per cent and 90 per cent of the total volume of transactions in all listed common stocks.

Periodic revisions in the number, character and grouping of issues included in the list are essential to keeping the Index abreast with evolutionary changes in business as mirrored in the stock market. During a protracted period of expanding prosperity, many ephemeral enterprises spring into the speculative spotlight and their stocks, by sheer force of activity, have to be included in the Price Index if it is to remain representative of the market as a whole during the boom phase. Not a few of such companies, however, are high cost producers or supply non-essentials which go begging in times of major business depression. In consequence of this, their earnings fall off precipitously and many pass into receivership or even bankruptcy; so that their stock fall into disfavor during the progress of, and convalescence from, a major bear market. Hence, during such a period of deflation, they must be removed from an index designed to present a true cross-section of price movements in active stocks.

This explains why the Index expanded from 238 com-

THE MAGAZINE OF WALL STREET'S COMMON STOCK PRICE INDEX

Secular Group Movements

(1925 Cl.—100, unless otherwise stated)

Group	1926-9 High	1930-8 Low	1932-8 High	1937 Close	1938 Close
COMBINED AVERAGE	173.1	17.5	122.0	54.3	73.1
Agricultural Implements	655.5	17.9	253.3	111.4	116.5
Amusements	272.0	7.3	72.6	34.0	43.2
Automobile Accessories	212.6	10.7	146.6	52.1	92.3
Automobiles	134.9	5.8	30.1	8.9	12.8
Aviation (1927 Cl.—100)	307.1	16.2	182.7	93.5	182.7
Baking (1926 Cl.—100)	100.0	4.8	28.5	9.8	14.1
Business Machines	385.8	29.6	308.6	135.4	183.9
Chemicals	363.9	53.6	247.7	134.2	168.2
Construction	145.4	9.9	88.3	32.9	47.5
Containers	273.5	51.0	361.0	193.4	242.6
Copper & Brass	391.5	14.9	217.3	75.3	118.6
Dairy Products	146.0	21.8	57.8	25.2	24.0
Department Stores	100.0	4.5	42.7	15.2	23.3
Drugs & Toilet Articles	201.9	35.1	108.8	45.2	49.4
Finance Companies	213.9	23.7	441.1	182.6	312.0
Food Brands	140.4	28.3	81.1	37.5	81.1
Food Stores	244.1	20.5	77.5	26.0	34.4
Furniture & Floor Covering	209.3	11.7	122.3	46.4	72.1
Gold Mining	587.0	189.0	1372.0	1120.7	1259.7
Investment Trusts	406.2	9.5	58.6	25.8	27.6
Liquor (1932 Cl.—100)	.....	85.0	360.0	167.2	193.1
Machinery	298.5	28.7	209.8	97.8	129.0
Mail Order	426.5	7.7	107.4	53.8	83.7
Meat Packing	104.4	15.6	120.3	48.6	51.1
Metals, non-ferrous	273.0	19.3	334.1	138.6	173.1
Paper	208.1	1.6	26.5	7.4	13.5
Petroleum	182.6	21.6	158.8	90.8	100.9
Public Utilities	388.4	23.0	114.9	54.0	58.6
Radio (1927 Cl.—100)	321.1	6.2	35.4	13.3	16.1
Railroad Equipment	136.1	12.0	112.9	40.3	61.6
Railroads	169.5	10.4	63.0	16.2	18.1
Realty	177.4	4.7	28.5	6.9	7.9
Shipbuilding	113.4	28.5	87.6	47.6	82.7
Steel & Iron	173.4	11.7	165.6	69.6	99.0
Sugar	116.1	3.8	45.3	21.6	20.1
Sulphur	386.9	53.9	216.5	118.6	153.2
Telephone & Telegraph	252.3	21.0	97.4	43.2	51.3
Textiles	128.5	16.1	91.8	35.3	44.7
Tires & Rubber	114.3	2.5	29.2	10.7	20.0
Tobacco	195.0	40.8	101.8	69.8	85.5
Traction	140.4	15.6	85.4	21.2	34.0
Variety Stores	138.8	23.3	369.2	157.7	215.5

ponent issues in 1926, when first presented to our readers, up to a maximum of 428 stocks in 1930, then contracted to 280 issues in 1933, expanded to 330 for 1937 and 1938, and contracted moderately this year to 316. Roughly speaking, it will be found that the number of issues which go into the Index expands and contracts with the total volume of transactions on the New York Stock Exchange; but with a one-year time lag, since the Index is revised but once a year.

In revising the list of stocks to be included in the 1939 Index, twenty-three issues had to be dropped from last year's tabulation — on account of merger, de-listing, or through lack of public interest as reflected in a shrunken volume of transactions. On the other hand, because of new listings, or due to enlarged public participation in certain stocks of older companies, nine issues were sufficiently active last year to compel inclusion this year under our automatic volume standard, so that the 1939 Index will be composed of 316 active common stocks, or 14 less than in 1937 and 1938.

This year the Index will be broken down into the same 43 sub-groups as last year.

Computing the Index

In response to many inquiries we present herewith a complete list of issues included in the 1939 Price Index, together with the following brief explanation of how the Index is computed:

Each group index, including the Combined Average, is derived separately, as follows:

First determine a price index for each component issue by finding the percentage ratio of its closing price for the current week to its closing price at the end of preceding year, and then find the unweighted, arithmetic, average of the individual indexes. This gives an auxiliary index, called the "current year index." Finally, multiply this current year index by the group's closing index for the previous year, and divide by 100. The result will be the group's "secular index," as published in each issue.

Once included in the list, a stock is carried along in the Index for the

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THE MAGAZINE OF WALL STREET'S COMMON STOCK PRICE INDEX

1939 Grouping of the 316 Component Issues

5—AGRICULTURAL IMPLEMENTS
Case
Deere
Int. Harvester
Minn.-Mol. Pr. Imp.
Oliver Farm Equip.

6—AMUSEMENTS
Loew's
Paramount
Pathe
R. K. O.
20th Century
Warner Bros.

15—AUTOMOBILE ACCESSORIES
Bendix
Borg-Warner
Briggs Mfg.
Budd Mfg.
Budd Wheel
Cont. Motors
Eaton Axle
Elec. Auto-Lite
Hayes Body
Houd.-Hershey "B"
Motor Wheel
Murray
Stewart-Warner
Thermoid
Timken-Detroit Axle

12—AUTOMOBILES
Chrysler
Gen. Motors
Graham-Paige
Hudson
Hupp
Mack
Nash
Packard
Reo
Studebaker
White
Yellow Truck

11—AVIATION
Aviation Corp.
Boeing
Cons. Aircraft
Curtiss-Wright
Douglas
Martin (Glenn L.)
No. Am. Aviation
Sperry
Transcont. & Western
United Aircraft
United Air Lines

3—BAKING
Cont. Baking "B"
Gen. Baking
Purity

3—BUSINESS MACHINES
Burroughs
Nat. Cash
Rem.-Rand

9—CHEMICALS
Allied Chem.
Com. Solvents
du Pont
Liquid Carbonic
Mathieson Alk.
Tenn. Corp.
Union C. & C.
U. S. Indus. Alc.
Va.-Car. Chem.

20—CONSTRUCTION
Am. Encaustic Til.
Am. Radiator
Barber Co.
Bucyrus-Erie
Byers (A. M.)
Central Foundry
Certain-teed
Crane Co.
Flintkote
Johns-Manville
Lone Star Cement
Nat. Gypsum
Nat. Supply
Otis Elevator
Penn-Dixie Cement
Pitts. Screw
Thompson-Starrett
U. S. Pipe
Walworth
Warren Bros.

5—CONTAINERS
Am. Can
Container Corp.
Cont. Can
Crown Cork
Owens-Ill. Glass

9—COPPER
Anaconda
Bridgeport Brass
Calumet & Hecla
Gen. Cable
Granby
Inspiration
Kennecott
Miami
Phelps-Dodge

2—DAIRY PRODUCTS
Borden
Nat. Dairy

8—DEPARTMENT STORES
Allied Stores
Asso. Dry Goods
Gimbel Bros.
Macy
Marshall Field
May Dept. Stores
Nat. Dept. Stores
Penney

7—DRUGS & TOILET ARTICLES
Colgate-Palm.-Peet
Coty
Gillette
Lambert
Sharp & Dohme
United Drug
Zonite

2—FINANCE COS.
Com. Credit
Com. Inv. Trust

7—FOOD BRANDS
Calif. Packing
Corn Prods.
Gen. Foods
Hecker
Loft
Nat. Biscuit
Stand. Brands

3—FOOD STORES
First Nat.
Kroger
Safeway

4—FURNITURE & FLOOR COVERING
Congoleum
Servel
Simmons
Spiegel

3—GOLD MINING
Alaska Juneau
Dome Mines
McIntyre Porcupine

6—INVESTMENT TRUSTS
Adams Express
Am. International
Atlas Corp.
Lehman
Transamerica
Tri-Continental

4—LIQUOR
Am. Com. Alc.
Distillers Seagram
Nat. Distillers
Schenley

9—MACHINERY
Allis-Chalmers
Am. Mach. & Fndry.
Caterpillar
Evans Prods.
Foster Wheeler
Gen. Elec.
Timken Roller Bear.
Westinghouse Mfg.
Worthington Pump

2—MAIL ORDER
Montgomery Ward
Sears, Roebuck

4—MEAT PACKING
Armour, Ill.
Gobel
Swift & Co.
Wilson

14—METALS, NON-FERROUS
Am. Metals
Am. Smelt. & Ref.
Am. Zinc, Lead
Butte Cop. & Zinc
Callahan Zinc
Cerro de Pasco
Howe Sound
Int. Nickel
Nat. Lead
Park Utah
St. Jo. Lead
Silver King
U. S. Smelt.
Vanadium

2—PAPER
Crown Zellerbach
Int. Paper & Pr.

24—PETROLEUM
Amerada
Atlantic Ref.
Barnsdall
Cons. Oil
Cont. Oil
Houston Oil
Mid-Cont.
Ohio
Phillips
Plymouth
Pure Oil
Richfield
Seaboard Oil
Shell Union
Socony
S. O., Calif.
S. O., Ind.
S. O., N. J.
Superior Oil
Texas Corp.
Texas Gulf Prod.
Texas Pac. C. & O.
Tide.-Asso. Oil
Union Oil

18—PUBLIC UTILITIES
Am. & For. Pr.
Am. Pr. & Lt.
Am. W. W.
Columbia G. & E.
Com. & Southern
Com. Edison
Cons. Edison
Elec. Pr. & Lt.
Engineers Pub. Serv.
Int. Hyd. "A"
Nat. Pr. & Lt.
North American
Pac. G. & E.
Pub. Serv., N. J.
So. Calif. Edison
Standard G. & E.
Stone & Webster
United Gas Imp.

4—RADIO
Elec. & Mus. Ind.
Radio Corp.
Sparks-With.
Zenith

9—RAILROAD EQUIPMENT
Am. Car & Fndry.
Am. Loco.
Am. Stl. Foundries
Baldwin
Gen. Am. Trans.
Gen. Ry. Sig.
Pressed Stl. Car
Pullman
West. Air Brake

22—RAILROADS
Atchison
Atlantic Coast
B. & O.
Canadian Pac.
C. & O.
Chic., Mil. & St. P.
Chic. & N. W.
D. & H.
D. L., & W.
Erie
Gt. Nor., Pfd.
Ill. Cent.
Lehigh Val.
M.-K.-T.
N. Y. Central
N. Y., N. H. & H.
Nor. Pac.
Pennsylvania
Seaboard Air Line
So. Pac.
So. Ry.
Union Pac.

2—REALTY
Gen. Realty
U. S. Realty

2—SHIPBUILDING
Elec. Boat
N. Y. Shipbuilding

13—STEEL & IRON
Allegheny-Ludlum
Am. Roll. Mill
Beth. Stl.
Blaw-Knox
Colo. Fuel & Iron
Gt. Nor. Ore Ctfs.
Interlake Iron
Nat. Stl.
Otis Stl.
Republic
Sharon
U. S. Stl.
Youngstown S. & T.

2—SUGAR
Am. Crystal
Cuban-Amer.

2—SULPHUR
Freeport
Tex. Gulf

3—TELEPHONE & TELEGRAPH
Am. Tel. & Tel.
Int. Tel. & Tel.
Western Union

4—TEXTILES
Am. Woolen
Celanese
Collins & Aikman
Indus. Rayon

4—TIRES & RUBBER
Firestone
Goodrich
Goodyear
U. S. Rubber

4—TOBACCO
Am. Tob. "B"
Lig. & Myers "B"
Lorillard
Reynolds Tob. "B"

4—TRACTION
B. M. T.
I. R. T.
Man. Mod. Gtd.
Omnibus

4—VARIETY STORES
Kresge (S. S.)
McCrory
McClellan
Woolworth

20—UNCLASSIFIED
Am. Hide & Leather
Am. Type Founders
Canada Dry
Cont. Ins.
Curtis Pub.
Eastman Kodak
Glidden
Goebel Brewing
Greyhound
Libbey-Owens
Marine-Midland
Newport Industries
Phila. & Rdg. C. & I.
Procter & Gamble
Schulte Retail Strs.
Shattuck F. G.
So. A. Gold & Plat.
Tex. Pac. Land Trust
United Elec. Coal
United Fruit

Answers to Inquiries

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
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Electric Storage Battery Co.

Will you kindly inform me what course to take with 100 shares of Electric Storage Battery, purchased at 40¼? Responding to the first impulse of automobile activity, this stock rose to 35. Now, at 29¾, I am curious to know how it should respond to spring automobile production and replacment sales. —M. E., Boston, Mass.

Earnings of Electric Storage Battery for 1938 are estimated to have been in the neighborhood of $1 per share. Moreover, the larger portion of this profit was gleaned from investment income and not directly from the company's operations. There has been, however, a noticeable pick-up in sales, due to more satisfactory automobile production and generally better business conditions. Replacement demand has held up well and new business is expected to come in as business recovery advances. The company's well established trade-names of "Exide" and "Willard" enjoy a high rate of demand from replacement sources, as well as for inclusion in new automobiles. A policy of diversification has been attempted by the company in that it has been trying to adapt their products to new uses. It is believed, however, that the automobile industry will continue to be the largest user of the company's products and that future earnings of Electric Storage will coincide greatly with the automobile industry. Currently, the company is beginning to suffer from competition. the greatest being from mail order house and chain accessory stores. selling batteries. This will probably be an unsettling future influence, although we do believe that Electric Storage will be able to cope with the situation quite successfully. Dividends on the common issue have always been satisfactory, the $2 dividend rate being disbursed on the common during 1938, even though the company undoubtedly knew that earnings would not fully cover the rate. The strong financial position of the concern justifies the belief that the full rate will continue to be paid in the future, even though unearned. At current prices, the shares of Electric Storage Battery seem to have taken fully into consideration the adverse factors present and appear reasonably priced for inclusion in your longer term portfolio. We counsel full retention of your shares, therefore, in anticipation of a continuation of general business recovery most importantly in the automobile trade.

Commercial Solvents Corp.

I hold 200 shares of Commercial Solvents which I bought at 20¼ primarily for appreciation. Would you advise averaging now at 11½ considering the improved business outlook? Are increased earnings in prospect in view of the development of chemical products in several fields?—B. D., Schenectady, N. Y.

Future profits of Commercial Solvents Corp. depend directly upon the company's ability to glean revenue from several new products which it is currently putting on the market and also upon new policies which have been instituted since the change in management. During 1938, operations of the company suffered from rising costs, weakness in prices of products, keen competition from synthetic products and decreases in demand for solvents. More emphasis is to be placed upon the company's beverage spirits and whisky business. As this source of revenue has only been a small part of gross heretofore, any uptrend in that division should result in clear profits. Prices of denatured and ethyl alcohol have also firmed most recently and therefore, if we could have a period of extreme cold weather, profit margins should be considerable. The mildness of the winter so far, however, has resulted in a small demand for this product and hence profits are currently understood to be unsatisfactory. If the company is successful with its new synthetic organic chemicals and its new nitro-cellulose lacquer base,

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longer term profits should compare more favorably with those of the past. In any event, more aggressive methods to be used will enable the company to enjoy a better competitive standing and thus lead to more satisfactory earnings. Dividend resumption is a distant possibility even though a strong financial position is maintained. Most recent pick-up in general business, of course, will be of material benefit to Commercial Solvents if continued. The future outlook is without a doubt problematical at this writing. The shares on a price appreciation basis, however, do have some appeal and we are counselling retention of your present commitment although we do not advise averaging.

General Foods Corp.

How do your analysts rate General Foods common as a medium for income and price appreciation? Is the $2 annual dividend secure with increased payments in prospect during 1939? Are profit margins being maintained? Do you advise buying this stock around 40?—T. Y., Seattle, Wash.

Tonnage volume of General Foods during 1938—as shown in the preliminary report—was the highest in the company's history. If large inventory write-offs were avoided, profits should be substantially ahead of the $1.75 a share recorded during 1937. In the nine months ended September 30, 1938, a profit of $1.92 a share was recorded, against a lower figure of $1.86 in the like interval a year earlier. Profit margins during the year just closed benefited from lower costs and during the latter part of the year, from increases in consumer purchasing power. Continued expansion of packing facilities and products as well as increases in retail outlets took place during 1938. These developments reflect the growing popularity of frozen foods. While tonnage volume of General Foods increased substantially during the year, sales in dollars did not show a corresponding increase, although they were near 1937 levels. Lower prices of most products may be cited as the reason for this restriction of gross revenue. The lower cost of production, however, tended to offset this contingency. A glance at the past history of General Foods is, at this point, interesting. No deficits have ever been reported, earnings being registered even in the worst year of the depression—1932. This enabled maintenance of the $2 dividend rate and the indication that it will be completely covered by 1938 earnings augurs well for continuation. The year of 1939 should see a continuation of the earnings growth and should allow a liberal return from the common issue. Although we do not anticipate any sharp rise in the shares marketwise, they may be given consideration by the investor who is primarily concerned with income.

Celanese Corp.

Holding 200 Celanese common bought at 39, I was pleased to read recently that fourth quarter earnings may equal 80 cents a share. Do you think that this improved earnings ratio will continue? Should I retain this stock or try to make up my loss in another issue? —T. C., Baltimore, Md.

Many factors lead us to believe that Celanese Corp. will be able to extend into 1939 the earnings betterment which took place in the third and fourth quarters of last year. Most important of these, of course, is an increase in demand for yarns and fabrics as a result of generally better business. Another constructive factor is the large operating economies effected as a precaution against the recent depression. Now that these have been fully working, there is no reason why profit margins could not widen considerably over coming months. Another interesting note is the proposed synthetic fibre which is supposed to be "adaptable to a complete range of textile uses." A new plant for the manufacture of this yarn is to be built in Virginia at a cost of not less than $10,000,000. In September of last year, a debenture issue of $10,000,000 was sold privately and cleared up $4,500,000 of old bank loans and $500,000 worth of new bank loans were placed on a serial maturity basis at 3½% per annum. Moreover, dividend arrears were cleared up on the preferred stock by a disbursement in late December. This leaves the way open for resumption of dividends on the common issue. Naturally, competition in this line of business is extremely keen. Giving due weight to this fact, however, we are inclined to place our belief in the management of Celanese—as exemplified by their past performance — and conclude that they are entirely able to cope with any competition within the industry. The common shares due mainly to the heavy senior capitalization must be given a speculative rating. The ability of Celanese, however, to record sharp gains in earnings, leads us to believe that they are an attractive medium for price appreciation.

Vanadium Corp. of America

Do you think that Vanadium common is on the way back to the steel leadership it enjoyed in the halcyon days of 1926 to 1929? I like the way the stock has been acting in recent weeks and contemplate adding to my 50 shares which cost me 38¾. What is your opinion?—E. K., Chicago, Ill.

It is estimated that earnings of Vanadium Corp. were in the neighborhood of 75 cents per share for the full year of 1938. In order to report operations in the black for the full year, the company had to wipe out—in the last half—a deficit of $5,794 or 2 cents per capital share sustained during the first six months of the year. This high rate of operations was made possible by an uptrend in steel operations which took place only in the latter half of last year. Looking at the future of the company, we find that it is relatively good as inventories of vanadium and similar products in the hands of steel makers are believed to be relatively small. It follows, therefore, that given any further improvement in the general business picture, sales of vanadium could show a marked uptrend. Another constructive factor is the growing use of alloy steel. This is particularly true when the large rearmament programs are considered. Probably the greatest use for vanadium in armament is those takings by the Navy. As Vanadium controls a large portion of the world's supply of vanadium through deposits in the Peruvian Andes, any sustained demand for that commodity would bring about a sharp uptrend in sales for the company. Vanadium is very simply capitalized, there being only 376,637 shares of capital stock outstanding. This is preceded only by $2,256,000 of funded debt. Although the company maintains a strong balance sheet position — total current assets being compared to total current liabilities at the ratio of approximately 6 to 1 — no dividends were paid during 1938. Neverthe-

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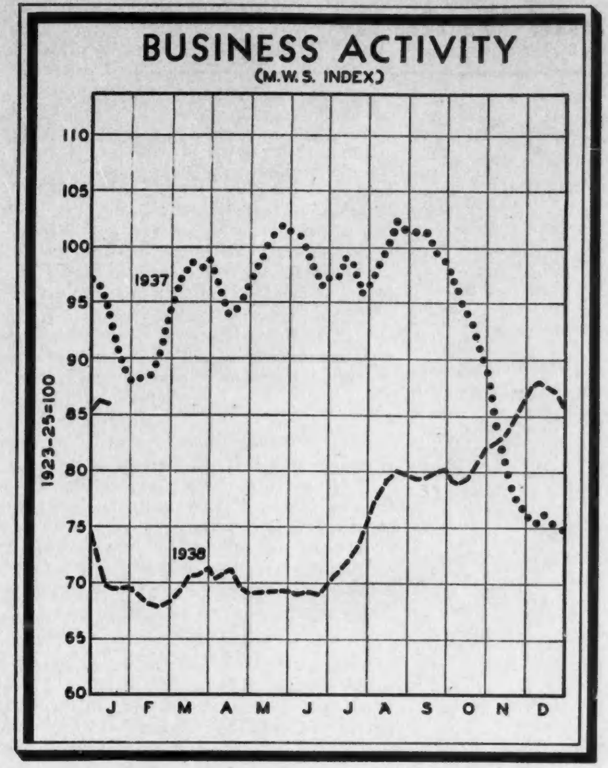

CONCLUSIONS

INDUSTRY—Further recovery should follow current temporary lull.

TRADE—Merchants replenishing depleted inventories.

COMMODITIES—Wheat and hides soft. Other staples steady.

MONEY AND CREDIT—Commercial loans off; excess reserves at new peak.

The Business Analyst

Early weeks of the year show **Business Activity** a few points under last year's high, and with prospects of some further slight recession before recovery is resumed in late January or early February. Among competent observers there is fairly general agreement that recovery during the first half of 1939, will reach new heights for the present wave of expansion in the absence of further trouble in Europe. The present Congress is more friendly toward private enterprise and some attempt will be made to pare expenditures. This year's keynote is preparedness and encouragement of expansion in the heavy goods industries along with fair prospects that something will be done for the **Railroads** in addition to the natural economic help which will come automatically from a rising tide of general business activity.

* * *

Increase in the gross public debt during the fiscal year ended June 30, 1940, is estimated by the President at 3,326 millions, compared with 3,967 millions during the 1939 fiscal year. Congress seems disposed to pare this sum moderately, and its inflationary effects will be reduced further by the amount of new bond issues subscribed by individuals and institutions other than banks—probably cutting to below two billions the amount of new bank credit which will

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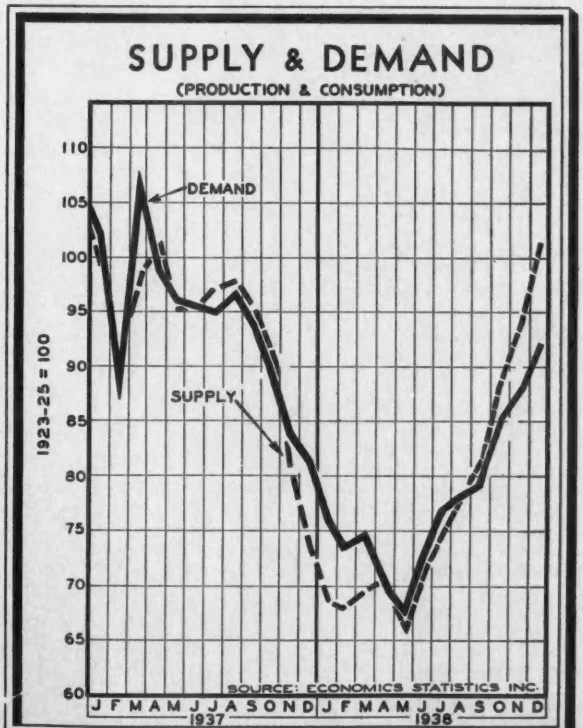

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Dec.	104	103	84
INDEX OF PRODUCTION AND TRADE (b)	Nov.	84	81	82
Production	Nov.	83	79	78
Durable Goods	Nov.	69	63	64
Non-durable Goods	Nov.	92	90	85
Primary Distribution	Nov.	77	76	82
Distribution to Consumers	Nov.	93	90	91
Miscellaneous Services	Nov.	79	77	87
WHOLESALE PRICES (h)	Dec.	76.9(pl)	77.5	81.7
COST OF LIVING (d)				
All Items	Dec.	85.8	85.6	88.6
Food	Dec.	80.3	79.5	84.4
Housing	Dec.	86.2	86.4	88.7
Clothing	Dec.	73.0	73.2	77.7
Fuel and Light	Dec.	86.0	85.9	86.1
Sundries	Dec.	96.8	96.8	97.8
Purchasing Value of Dollar	Dec.	116.6	116.8	112.9
NATIONAL INCOME (cm)†	Nov.	$5,298	$5,654	$5,405
CASH FARM INCOME†				
Farm Marketing	1938	$7,150	......	$8,208
Gov't Payments	1938	482		367
Total Income	1938	7,632(pl)	......	8,574
Prices Received by Farmers (ee)	Dec.	96	94	104
Prices Paid by Farmers (ee)	Dec.	120	121	126
Ratio: Received to Paid (ee)	Dec.	80	78	83
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	82.1	79.1	100.8
Non-durable Goods	Nov.	98.6	99.3	101.4
FACTORY PAYROLLS (f)	Nov.	84.1	83.9	92.9
RETAIL TRADE				
Department Store Sales (f)	Dec.	89(pl)	89	89
Chain Store Sales (g)	Dec.	112.0	109.5	111.5
Variety Store Sales (g)	Dec.	122.0	115.4	121.0
Rural Retail Sales (j)	Dec.	129.3	119.7	126.4
Retail Prices (s) as of	Jan. 1	88.9	88.9	93.2
FOREIGN TRADE				
Merchandise Exports†	Nov.	$252.2	$277.9	$314.7
Cumulative Year's Total†	Nov.	2,825.5	......	3,025.8
Merchandise Imports†	Nov.	176.2	178.0	223,1
Cumulative Year's Total†	Nov.	1,789.0	......	2,874.8
RAILROAD EARNINGS				
Total Operating Revenues★	1st 11 ms.	$3,247,155	......	$3,865,748
Total Operating Expenditures★	1st 11 ms.	2,489,525	......	2,875,710
Taxes★	1st 11 ms.	314,285	......	304,604
Net Rwy. Operating Income★	1st 11 ms.	323,352	......	564,209
Operating Ratio %	1st 11 ms.	76.67	......	74.39
Rate of Return %	1st 11 ms.	1.34	......	2.34
BUILDING Contract Awards (k)				
Total†	Dec.	$389.4	$301.7	$209.5
Residential†	Dec.	......	95.3	43.5
Public Works and Utility†	Dec.	......	90.4	64.8
Non-Residential†	Dec.	......	116.0	101.2
Publicly Financed†	Dec.	279.4	178.9	115.1
Privately Financed†	Dec.	110.0	122.8	94.4
Building Permits (c)				
214 Cities†	Dec.	$67.3	$67.5	$43.9
New York City†	Dec.	22.3	22.2	74.8
Total, U. S.†	Dec.	89.6	89.7	118.7
Engineering Contracts (En)†	Dec.	$339.3	$217.0	$199.0
CONSTRUCTION COST INDEX (En) 1913—100	Jan. 1	234.72	234.89	239.6

PRESENT POSITION AND OUTLOOK

(Continued from page 449)

be called into being in consequence of the 1940 deficit. Added to an estimated total of 58 billions in cash and bank deposit currency as of June 30, 1939, two billions would be only mildly inflationary; so that a large increase in private expenditure for capital goods is still the sine qua non for a full return to pre-depression prosperity and the complete elimination of government expenditures for unemployment relief.

• • •

Armament expenditures for the 1940 fiscal year are estimated at 552 millions, an increase of 324 millions over the outlay for year ended June 30, 1940. These are puny figures in comparison with world armament expenditures of 16 billions last year and 13.5 billions in 1937, and will not prove to be a great business stimulant, particularly since they will be spread out over so long a time.

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According to latest available figures, **raw material prices** are now 3% below last year, **wholesale** and **retail prices** are off 5%, while **prices received by farmers** are down 8%. World prices in gold are about 14% lower than a year ago. For December, **department store sales** were on a level with the like month of 1937, against an 8% decrease for the 1938 calendar year. **Chain store sales** were up 5.2%, compared with a 4.1% decline for the full year. **Variety store sales** were off 4.5%, against a 4% recession for the year. **Rural retail sales** gained 2.5%, compared with a 6% decrease for all of 1938. The total value of **retail trade** last year is estimated at about 35 billion dollars, compared with 40 billions in 1937 and 49 billions in 1929.

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With **carloadings,** adjusted for the holidays, running currently about 6% above a year earlier, the first 92 Class I **railroads** to report for December show an aggregate increase over December, 1937, of about 5% in operating revenues—freight revenues rising 7% and passenger revenues declining 5.5%. Net operating income while not yet complete for December, as this is written, indicates a much larger increase than gross.

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Construction contracts awarded last year in 37 states east of the Rockies were 7% ahead of 1937, with **residential** awards showing a like percentage gain. Engineering awards during December were 70% ahead of the like month of 1937, bringing the year's increase up to 14.5%. Mortgages selected for appraisal by the FHA during December were 137% ahead of the like month of 1937, compared with a 97% increase for all of 1938. According to a survey of more than 200 cities made recently by the W P A, only 40% of the 8,000,000 American homes are in good condition, and more than 16% of the homes covered outside New York City are rated as "unfit for use." Life insurance companies are reported to be planning on the construction, ownership and management of commercial buildings on a large scale if enabling legislation can be obtained.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	3,143	3,572	1,473
Pig Iron Production in tons★	Dec.	2,202	2,270	1,490
Shipments, U. S. Steel in tons★	Dec.	694	680	489
AUTOMOBILES				
Production				
Cars and Trucks, U. S. & Canada	Dec.	413,319	390,350	347,349
Total	1938	2,660,681(pl)	......	5,016,437
Retail Sales				
Passenger Cars, U. S. (p)	Dec.	215,000(pl)	200,853	174,820
Trucks, U. S. (p)	Nov.	23,943	19,589	27,248
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Dec.	285.6	323.7	372.6
Shipments, U. S. & Canada★ (tons)	Dec.	303.4	340.7	394.5
Mill Stocks, U. S. & Canada★ (tons)	Dec. 31	180.0	197.9	59.2
LIQUOR (Whisky)				
Production, Gals.★	Dec.	10,780	10,562	10,044
Withdrawn, Gals.★	Dec.	7,693	9,571	6,790
Stocks, Gals.★	Dec.	466,809	466,176	452,399
GENERAL				
Machine Tool Orders (f)	Dec.	146.5	112.2	142.7
Railway Equipment Orders (Ry)				
Locomotive	1938	228	......	368
Freight Cars	1938	16,539	......	52,738
Passenger Cars	1938	269	......	829
Cigarette Production†	Nov.	13,506	13,264	12,786
Bituminous Coal Production★ (tons)	Dec.	36,230	36,110	37,122
Boot and Shoe Production Prs.★	Nov.	29,743	34,872	21,290
Portland Cement Shipments★	Nov.	8,573	12,357	8,188
Commercial Failures (c)	Dec.	875	984	1,009

PRESENT POSITION AND OUTLOOK

Automobile assemblies during 1938 are estimated at about 2,660,000 cars and trucks, compared with 5,016,437 in 1937. It is believed, however, that the first quarter of 1939 will witness the production of not less than 1,000,000 units. December's production is estimated at 412,000, against 390,000 in November—bring the fourth quarter's total up to 1,017,000 units, only 4% below the like period of 1937.

* * *

North American **newsprint** production during December was 22% under the like month of 1937, compared with a 25% decline for the 1938 calendar year. U. S. production accounted for 22% of the total in 1938, compared with only 19% in 1937. Mill stocks at the end of December stood at 180,000 tons, against 59,000 a year earlier; but publishers' stocks at the end of November were 219,000 tons less than a year earlier.

* * *

Owing to a brisk pick-up in domestic bookings, which were the largest for any month last year, **machine tool orders** during December leaped 30% ahead of November to a level 2.7% above the like month of 1937. **Shoe** production in December is estimated at 27,000,000 pairs, a 28% increase over the like month of 1937, against a 1938 decline of 6.5%.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Jan. 14	85.9	86.3	69.4
ELEC. POWER OUTPUT K.W.H.†	Jan. 14	2,270	2,169	2,115
CARLOADINGS				
Total	Jan. 14	586,877	530,849	580,740
Grain	Jan. 14	34,056	29,324	42,393
Coal	Jan. 14	123,664	119,626	131,757
Forest Products	Jan. 14	26,416	21,733	25,878
Manufacturing & Miscellaneous	Jan. 14	229,299	208,772	209,603
L. C. L. Mdse	Jan. 14	145,469	122,302	141,252
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 17	20.61	20.61	23.25
Scrap $ per ton (m)	Jan. 17	15.00	14.92	14.00
Finished c per lb. (m)	Jan. 17	2.286	2.286	2.512
STEEL OPERATIONS				
% of Capacity week ended (m)	Jan. 21	53.0	52.5	31.0
CAPITAL GOODS ACTIVITY (m) week ended	Jan. 14	80.4	78.9	57.5
PETROLEUM				
Average Daily Production bbls.★	Jan. 14	3,244	3,215	3,477
Crude Runs to Stills Avge. bbls.★	Jan. 14	3,260	3,170	3,158
Total Gasoline Stocks bbls.★	Jan. 14	73,752	72,818	81,002
Gas and Fuel Stocks bbls.★	Jan. 14	142,460	143,333	119,433
Crude—Mid-Cont. $ per bbl	Jan. 21	1.02	1.02	1.27
Gasoline—Refinery $ per gal	Jan. 21	.05⅞	.05⅞	.06⅞

PRESENT POSITION AND OUTLOOK

Electric power output continues to expand at a somewhat better than normal seasonal rate and is running currently at about 7% above last year. Outlook for the industry is further improved by prospects that a somewhat more economically minded Congress will leave less funds available for competitive power stations.

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Steel operations since the holidays have been picking up at a somewhat more leisurely pace than usual for this time of year, owing to a temporary slackening in bookings; but inventories are low and a considerably better output is looked for within a few weeks, especially if railroad freight traffic continues to improve as expected.

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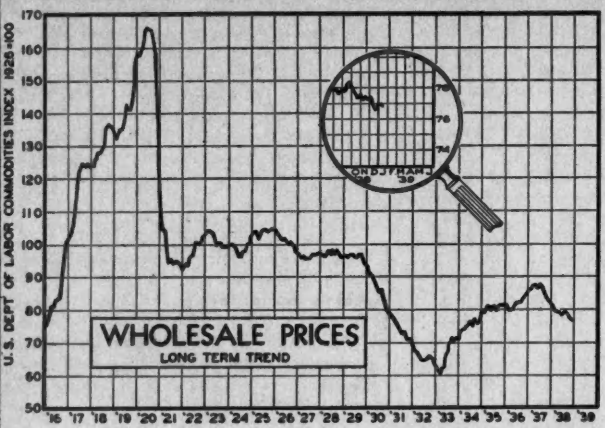
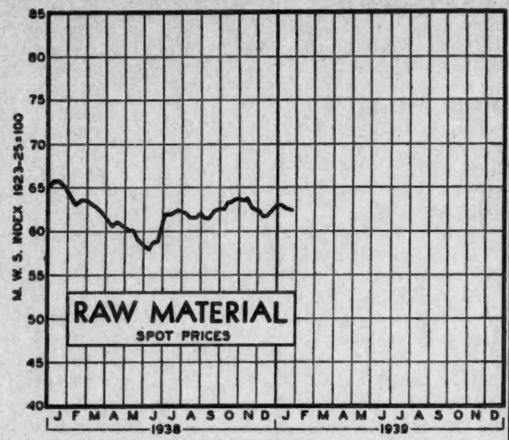
Although **gasoline** stocks are being built up at a less rapid rate than a year ago, and are now 8% below last year at this time, stocks of **crude** and fuel **oil** are still excessive, and the recent mild curtailment of output in California is scarcely drastic enough to strengthen the industry's statistical position materially. Leaders in the industry believe that stocks of **crude oil** should be worked down to around 230,000,000 barrels, from the current level of 270,000,000, a goal that can scarcely be reached this year.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age.

Trend of Commodities

Whatever the coming months may bring in the way of general business improvement, commodity prices taken as a whole have shown no tendency to anticipate increasing consumption. It would appear from the recent trend of prices that commodities were weighing the possibilities of increased industrial demand against such unpredictable factors as politics and possible war scares this spring, and waiting for more concrete evidence—one way or the other. In effect commodities are reflecting the adherence of buyers to a cautious attitude in making forward commitments. Such an attitude, however is not necessarily born of skepticism but the memory of the unfortunate inventory experiences of the past two years is probably still vivid. There is at the moment nothing to indicate that commodity prices are likely to deviate much from the narrow range pattern of recent weeks.





Changes in Major Commodity Price Groups for the Fortnight Ended January 14, 1939

Farm Products	67.3	down 1.0	Metals	94.6	down 0.2
Foods	71.3	down 1.2	Building Material	89.7	up 0.5
Hides and Leather	94.1	down 0.5	Chemical	76.4	up 0.1
Textiles	65.3	no change	Housefurnishings	87.2	down 0.4
Fuel and Lighting	73.7	no change	Miscellaneous	73.1	up 0.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Jan. 21	8.49	8.42	8.48
May	Jan. 21	8.22	8.15	8.57
Spot	Jan. 21	9.09	8.92	8.58
(In bales 000's)				
Visible Supply, World	Jan. 20	9,444	9,579	9,245
Takings, World, wk. end	Jan. 20	438	331	381
Total Takings, Season Aug. 1 to	Jan. 20	8,934	8,519	9,150
Consumption, U. S.	Dec.	565	596	432
Exports, wk. end	Jan. 10	90	75	132
Total Exports, Season Aug. 1 to	Jan. 20	2,089	1,999	3,692
Government Crop Est. (final)	1938	12,008	......	18,946
Active Spindles (000's)	Dec.	22,445	22,449	22,337
WHEAT				
Price cents per bu. Chi. closing				
May	Jan. 21	69⅜	68½	94⅝
July	Jan. 21	69⅜	68⅝	89½
Exports bu. (000's) since July 1 to	Jan. 14	87,809	85,691	77,076
Exports bu. (000's) wk. end	Jan. 14	2,118	1,447	2,849
Visible Supply bu. (000's) as of	Jan. 14	107,401	111,378	111,378
Gov't Crop Est. bu. (000's) (final)	1938	930,801	......	873,993
CORN				
Price cents per bu. Chi. closing				
May	Jan. 21	51¾	52⅛	60⅞
July	Jan. 21	52¾	53⅛	61¾
Exports bu. (000's) since July 1 to	Jan. 14	56,554	54,025	11,320
Visible Supply bu. (000's) as of	Jan. 14	47,145	48,079	48,079
Gov't Crop Est. bu. (000's) (final)	1938	2,480,958	......	2,644,995

PRESENT POSITION AND OUTLOOK

Cotton. Consumption in December totaled 565,307 bales and afforded a favorable comparison with 432,328 bales in December 1937. In the first five months of the current season total consumption was 2,799,817 bales as compared with 2,644,414 in the same period a year ago. Exports totaled 4,316,000, a decline of 1,412,000 bales, or 24.7 per cent from the 1937 level. This is a sad commentary on the Government's cotton policy of recent years which has sacrificed our foreign competitive position to domestic prices. Little change in prices indicated.

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Wheat. Price movements have been confined to a narrow range and speculative interest has subsided with the reports of more favorable growing conditions in the winter wheat belt. There is slight doubt that there has been considerable deterioration in the winter crop, but marketwise this is overshadowed by the possibility that spring growers may be encouraged to plant larger acreages, sufficient to offset the winter deficiency. Higher prices do not appear imminent.

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Corn. Following reports of improved growing conditions for the Argentine crop, export demand for corn has dried up rapidly. While the Argentine crop may be below normal, private estimates are looking for a larger crop than recently forecast by figures emanating from Argentina. Prices likely to hold firm.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Jan. 21	11.25	11.25	10.25-10.50
Export c. i. f.	Jan. 21	10.22½	10.20	10.20
Refined Prod., Domestic (tons)	Dec.	67,947	66,746	60,463
Refined Del., Domestic (tons)	Dec.	38,853	51,297	18,660
Refined Stocks, Domestic (tons)	Dec.	289,755	269,488	259,351
Refined Prod., World (tons)	Dec.	189,801	177,810	179,872
Refined Del., World (tons)	Dec.	157,170	177,984	121,966
Refined Stocks, World (tons)	Dec.	457,168	424,537	471,195
TIN				
Price cents per lb., N. Y.	Jan. 21	46.50	46.55	41.125
Tin Plate, price $ per box	Jan. 21	5.00	5.00	5.35
World Visible Supply† as of	Dec. 31	30,554	30,598	27,044
U. S. Deliveries†	Dec.	3,400	3,535	5,020
U. S. Visible Supply† as of	Dec. 31	5,157	5,060	6,385
LEAD				
Price cents per lb., N. Y.	Jan. 21	4.85	4.85	4.90
U. S. Production (tons)	Dec.	34,683	39,800	49,581
U. S. Shipments (tons)	Dec.	33,908	42,032	34,020
Stocks (tons) U. S., as of	Dec. 31	115,902	115,236	129,131
ZINC				
Price cents per lb., St. Louis	Jan. 21	4.50	4.50	5.00
U. S. Production (tons)	Dec.	44,825	40,343	51,787
U. S. Shipments (tons)	Dec.	38,999	43,693	29,545
Stocks (tons) U. S., as of	Dec.	126,604	120,778	64,776
SILK				
Price $ per lb. Japan xx crack	Jan. 21	1.94	1.88	1.57
Mill Dels. U. S. (bales), season to	Dec. 31	222,375	......	191,061
Mill Deliveries U. S. (bales)	Dec.	35,204	41,599	21,982
Visible Stocks N. Y. (bales) as of	Dec. 31	53,278	46,218	49,535
Visible Stocks, World (bales) as of	Dec. 31	149,778	150,718	161,435
RAYON (Yarn)				
Price cents per lb	Jan. 1	51.0	51.0	63.0
Consumption (a)	Dec.	26.2	21.7	9.1
Stocks (a) as of	Dec. 31	39.5	40.0	56.8
WOOL				
Price cents per lb. tops N. Y.	Jan. 21	85½	84½	87
HIDES				
Price cents per lb. No. 1 Packer	Jan. 21	10½	11¾	10
Visible Stocks (000's) (b) as of	Nov. 30	13,744	13,440	15,194
No. of Mos. Supply as of	Nov. 30	8.3	7.7	10.8
RUBBER				
Price cents per lb	Jan. 21	15.90	16.00	14.74
Imports, U. S.†	Dec.	36,977	31,054	68,305
Consumption, U. S.†	Dec.	45,315	46,169	29,195
Stocks, U. S. as of	Dec. 31	245,413	254,196	262,204
Tire Production (000's)	Nov.	4,117	4,134	3,120
Tire Shipments (000's)	Nov.	4,442	4,144	3,777
Tire Inventory (000's) as of	Nov. 30	7,924	8,237	10,963
COFFEE				
Price cents per lb. (c)	Jan. 21	7½-8	7½-8	8¾
Imports (bags 000's)	Dec.	1,255	1,213	......
Imports, season to	Dec. 31	6,915	......	5,238
U. S. Visible Supply (bags 000's)	Jan. 1	1,558	1,522	1,209
SUGAR				
Price cents per lb.				
Domestic No. 3 Mar.	Jan. 21	1.88	1.88	2.26
Duty free delivered	Jan. 21	2.77	2.75	3.20
Refined (Immediate Shipment)	Jan. 21	4.25-4.30	4.25-4.30	4.75
U. S. Deliveries (000's)*	1938	6,619	......	6,670
U. S. Stocks (f) (000's)* as of	Dec. 31	533	......	529

PRESENT POSITION AND OUTLOOK

Copper. Rumors of a further cut in quotas by the foreign cartel accompanied by announcement of curtailment in domestic output did not serve to entirely dispel doubts as to the ability of domestic producers to hold prices above the export figure. World supplies increased 32,631 tons in December, of which 20,267 tons was accounted for by the increase in domestic supplies. The uncertain price situation has caused buyers to stand aside awaiting clarification of the outlook.

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Tin. Prices have held in a narrow range, with day-to-day fluctuations virtually at a minimum. As a result buying interest is stagnant. Tin, however, continues in a strong statistical position and prices, with any awakening in demand, could easily move higher.

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Lead. Although new demand is quiet, a strong statistical position and a fairly substantial backlog of unfilled orders combine to impart underlying strength to the price structure.

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Zinc. Statistical position is the least impressive of the non-ferrous metal group. Stocks are large and demand is quiet. Galvanizing operations have recently risen moderately to 54% of capacity.

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Silk. For the first time in 1938 hosiery shipments for the month of November were ahead of the same month of 1937. Shipments for the eleven months of 1938 were 0.6% ahead of 1937.

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Wool. Average rate of mill consumption of apparel wool in November was some 20% higher than in October and the highest for any month since March 1937. Stocks of raw wool at the opening of the 1939 season in April will be lower than a year ago

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Hides. Hide prices, in their characteristic fashion, continue to conform to the trend in the stock market. Shoe production promises to be sustained for the next several months at a level of 5 to 8% above last year.

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Rubber. Consumption in December, although slightly lower than in November, was more than 55% ahead of December 1937. Imports increased but stocks at the end of the year were the lowest since November 1937.

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Coffee. Brazilian exports have registered encouraging gains since mid-December and informed opinion holds the belief that the outlook for Brazilian coffee has brightened considerably.

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Sugar. Beet interests are expected to rally their legislative forces in Congress in an attempt to raise sugar prices. This prospect has strengthened futures somewhat. The market has been further aided by withdrawal of Cuban offerings, awaiting decision on the proposed reduction in Cuban sugar duties.

(a)—Million pounds. (c)—Santos No. 4 N. Y. (e)—1937 Harvest. (f)—Refiners' stocks of raw and refined. †—Long tons. *—Short tons.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Jan. 21	1¼%	1¼%	1¼%
Prime Commercial Paper	Jan. 21	⅝-1%	⅝-1%	1%
Call Money	Jan. 21	1%	1%	1%
Re-discount Rate, N. Y.	Jan. 21	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Jan. 7	$2,489	$2,366	$2,879
Cumulative year's total	.....	2,489	......	2,879
Bank Clearings, N. Y.	Jan. 7	3,819	3,620	4,085
Cumulative year's total	.....	3,819	......	4,085
F. R. Member Banks				
Loans and Investments	Jan. 11	21,477	21,526	21,333
Commercial, Agr., Ind. Loans	Jan. 11	3,818	3,826	4,501
Brokers Loans	Jan. 11	864	884	842
Invest. in U. S. Gov'ts	Jan. 11	8,206	8,189	8,097
Invest. in Gov't Gtd. Securities	Jan. 11	1,715	1,732	1,181
Other Securities	Jan. 11	3,189	3,193	2,910
Demand Deposits	Jan. 11	16,050	15,888	14,463
Time Deposits	Jan. 11	5,177	5,161	5,203
New York City Member Banks				
Total Loans and Invest.	Jan. 18	7,615	7,669	7,852
Comm'l, Ind. and Agr. Loans	Jan. 18	1,371	1,381	1,706
Brokers Loans	Jan. 18	675	704	654
Invest. U. S. Gov'ts	Jan. 18	2,685	2,742	3,121
Invest. in Gov't Gtd. Securities	Jan. 18	853	836	392
Other Securities	Jan. 18	1,125	1,083	995
Demand Deposits	Jan. 18	6,793	6,714	5,822
Time Deposits	Jan. 18	613	613	641
Federal Reserve Banks				
Member Bank Reserve Balance	Jan. 18	9,130	8,956	7,219
Money in Circulation	Jan. 18	6,666	6,716	6,346
Gold Stock	Jan. 18	14,615	14,577	12,755
Treasury Currency	Jan. 18	2,810	2,805	2,639
Treasury Cash	Jan. 18	2,726	2,712	3,621
Excess Reserves	Jan. 18	3,560	3,440	1,370

NEW FINANCING (millions of $)		Latest Month	Last Month	Year Ago
Corporate	1938	$2,075.8	......	$2,435.7
New Capital	1938	854.4	......	1,227.0
Refunding	1938	1,221.4	......	1,208.7

COMMENT

Week to week changes in the banking position are beginning to show a tedious familiarity, at least to the extent that commercial loans continue to be liquidated and excess reserves attain new peaks. The latest statement of **Federal Reserve Banks** discloses a decline of $50,000,000 in currency circulation, a trend typical of the post-holiday season, and Treasury deposits were off $73,000,000. As a result, excess reserves rose $120,000,000 to a new high level at $3,560,000,000. The increase in excess reserves of **New York City member banks** was even greater, a rise of $164,000,000 bringing the total for this group of banks up to $2,082,000,000. At the same time, loans and investments of New York City banks experienced a net decline of $54,000,000. Loans were off $56,000,000 and investments were up $2,000,000. The major portion of the decline in these items was accounted for by the liquidation of $29,000,000 in loans to brokers and dealers in securities. Commercial loans dropped $10,000,000 to the lowest figure reached since the loan figures have been made public in their present form. Holdings of direct government bonds were down $57,000,000. This decline, however, was offset by the acquisition of $17,000,000 in government guaranteed issues and $42,000,000 of other securities.

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It is a foregone conclusion that excess reserves over the coming weeks will continue to mount, perhaps to the dizzy level of $4,000,000,000. Treasury balances will continue to decline and there is more than a quarter of a million dollars in pre-holiday currency which is still to be returned to the banks. This trend of excess reserves is emphasized because in our present system of managed currency and economy, it is certain that sooner or later the Government will take some action to prevent a further rise. Whether or not this will disturb business will depend upon how positive and what the nature of such action may be.

POSITION OF FOREIGN BANKS

	Jan. 18, 1939	Jan. 19, 1938
BANK OF ENGLAND		
Circulation	£467,953,000	£475,671,000
Public Deposits	12,251,000	11,051,000
Private Deposits	156,628,000	161,296,000
Bankers Accounts	119,935,000	124,358,000
Other Accounts	36,693,000	36,938,000
Government Securities	85,571,000	104,388,000
Other Securities	42,097,000	34,733,000
Discount and Advances	18,491,000	12,967,000
Securities	23,606,000	21,766,000
Reserves	59,081,000	51,319,000
Bullion	127,034,000	326,991,000
BANK OF FRANCE	Jan. 13, 1939	Jan. 14, 1938
Gold Holdings	Fr.87,265,000,000	Fr.58,932,000,000
Credit Balances Abroad	762,000,000	18,000,000
Bills on France	5,693,000,000	9,969,000,000
Wheat Office Bills	1,950,000,000	....
Advance Against Securities	3,476,000,000	3,860,000,000
Note Circulation	110,191,000,000	92,557,000,000
Credit Current Accounts	28,919,000,000	24,725,000,000
Temp. Advs. to State	20,627,000,000	31,908,000,000
Gold on Hand to Sight Liabilities	62.73%	51.25%

COMMENT

British industrial and financial indexes afford scant basis for optimism over the near term business prospect. Sentiment is depressed by the political and foreign trade outlook. Foreign trade figures for 1938 revealed a drop of £43,000,000 in the import balance. Both export and import trade, however, was lower than in 1937. The figures, of course, do not reflect the anticipated benefits of the British-American trade treaty. Further evidence of the business trend in England is afforded by the decline in new financing last year to £118,000,000 from £171,000,000 in 1937.

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The marked improvement in French financial and economic conditions since the adoption of the Daladier-Reynaud program is one of the brightest spots in the foreign situation. This program has for its objective the release of the French economy from a myriad of social restrictions and restore elasticity, increase industrial production and raise the national income. Every effort is being put forth to encourage new investments and restore confidence in the currency.

POSITION OF FOREIGN BANKS—Continued

GERMAN REICHSBANK	Jan. 14, 1939	Jan. 15, 1938
Gold and Bullion	Rm.70,773,000	Rm.70,686,000
Of Which Deposits Abroad	10,572,000	20,333,000
Reserve in Foreign Currency	5,815,000	5,604,000
Bills of Exchange & Checks	6,944,842,000	5,049,522,000
Investments	851,938,000	393,728,000
Other Assets	1,306,830,000	877,509,000
Notes in Circulation	7,425,272,000	4,857,430,000
Other Daily Matured Obligations	916,032,000	826,628,000
Other Liabilities	423,398,000	335,248,000
Proportion of Gold & Foreign Currency to Note Circulation	1.03%	1.51%

The long rumored removal of Dr. Hjalmar Schacht from his post as president of the Reichsbank has finally occurred. Held in high regard in financial circles throughout the world, the passing of Dr. Schacht was viewed with dismay and further emphasizes the extent to which Germany has departed from the paths of orthodox economy. It is now expected that Germany will further tighten its grip on internal prices and supplies.

* * *

BANK OF CANADA	Jan. 18, 1939	Jan. 19, 1938
Reserve Gold, Coin & Bullion	$188,760,000	$179,688,000
Silver Bullion	....	2,993,000
Reserve in Sterl. & U. S. Dollars	39,804,000	15,787,000
Subsidiary Coin	249,000	99,000
Dom. & Prov. Gov't Short Term Securities	141,522,000	75,343,000
Other Dom. & Prov. Securities	42,547,000	91,306,000
Other Securities	....	12,203,000
Note Circulation	167,301,000	157,988,000
Deposits—Dom. Gov't	52,735,000	17,955,000
Chartered Banks	216,989,000	189,158,000
Res. to Note & Dep. Liabilities	51.86%	54.99%

Business sentiment in Canada is optimistic and not without reason. Last year's wheat crop of some 350,000,000 bushels was nearly double that in the drought year 1937, and was the largest crop in six years. Moreover, the crop prospects for 1939 shape up much more favorably than they do in the United States. Following the suit of other nations, Canada has increased its rearmament budget and will spend $60,000,000 for home defense in 1939-40. Last year expenditures for rearmament totaled $35,000,000.

FOREIGN EXCHANGE IN DOLLAR TERMS

Quotations in cents and decimals of a cent except pound sterling which is in dollars and cents.	Demand		Cables	
Country and Par	Jan. 20	Year Ago	Jan. 20	Year Ago
Great Britain ($8.2397 a sov.)	4.68	4.99⅞	4.68	4.99⅞
Belgium (16.9502c a belga)	16.90½	16.90¼	16.90½	16.90¼
Czecho-Slovakia (3.51c a crown)	3.43	3.51¼	3.43	3.51¼
Denmark (45.374c a krone)	20.89½	22.30½	20.89½	22.30½
Finland (4.264c a finmark)	2.07	2.21⅜	2.07	2.21⅜
France (par not definite)	2.64¼	3.31½	2.64¼	3.31½
Germany (40.33c a mark)**	40.05	40.28½	40.05	40.28½
Germany (benevolent mark)	22.20	.....	22.20	.....
Germany (travel mark)	22.15	25.70	22.15	25.70
Germany (handels sperrmark)†	3.80	.....	3.80	.....
Greece (2.197c a drachma)	0.86	0.91¾	0.86⅛	0.91⅞
Holland (par not definite)	54.29	55.73	54.29	55.73
Hungary (29.613c a pengo)¶	19.50	19.95	19.50	19.95
Italy (5.2634c a lira)§	5.26¼	5.26½	5.26¼	5.26½
Norway (45.374c a krone)	23.51½	25.11½	23.51½	25.11½
Poland (18.994c a zloty)	18.92	19.01	18.92	19.01
Rumania (1.012c a leu)	0.75	0.75	0.75	0.75
Sweden (45.374c a krona)	24.09½	25.76½	24.09½	25.76½
Switzerland (par not definite)	22.58¾	23.11½	22.58¾	23.11½
Yugoslavia (2.981c a dinar)	2.30	2.35½	2.30	2.35½
Shanghai dollars (unsettled)	16.37½	29.62½	16.37½	29.62½
Hongkong dollars (unsettled)	29.25	31.31	29.25	31.31
India (61.798c a rupee)	34.99	37.75	34.99	37.75
Japan (84.39c a yen)	27.30	29.06	27.30	29.06
Sts. Settlements (96.139c a dollar)	54.50	58.75	54.50	58.75
Argentina (71.87c a paper peso)¶	23.03	29.40	23.03	29.40
Argentina (71.87c a paper peso)**	31.21	33.33	31.21	33.33
Brazil (20.25c a paper milreis)**	5.90	5.30	5.90	5.30
Chile (20.599c a gold peso)†	5.19	5.19	5.19	5.19
Colombia ($1.645 a gold peso)**	57.06	55.79	57.06	55.79
Mexico peso (unsettled)†	20.30	27.80	20.30	27.80
Peru (47.409c a sol)†	20.37½	24.62½	20.37½	24.62½
Uruguay ($1.751 a gold peso)¶	38.50	53.00	38.50	53.00
Uruguay ($1.751 a gold peso)*†	61.60	65.77	61.60	65.77
Venezuela (32.67c a bolivar)¶	31.50	30.50	31.50	30.50
Venezuela (32.67c a bolivar)**	31.63	31.62½	31.63	31.62½

COMMENT

Since England has clearly evinced the intention of defending the pound against further depreciation, foreign exchange markets have been comparatively quiet and fluctuations have held within a narrow range. By imposing an embargo on foreign loans, the outflow of long term British capital to foreign countries has been stopped. Steps have been taken which should result in discouraging speculative activity in the pound, which previously had taken the form of large scale short selling. As previously pointed out in these columns, the recent exchange of £200,000,000 in gold held by the Bank of England for an equal amount of Government securities held by the Equalization Fund provides the latter with ample resources with which to support the pound at virtually any level desired. Successful stabilization of the pound should remove any threat that France may abandon the sterling bloc. Moreover, the United States, in the interest of the recently concluded trade agreement with Great Britain, is especially desirous of preventing a further decline in the value of the pound.

* * *

Canada is also vitally interested in preventing a further decline in sterling. Nearly 50 per cent of Canada's exports go to British Empire countries and it has been feared that a further decline in sterling would imperil Canada's competitive position in British markets. Depreciation of the Canadian dollar sufficient to equalize the decline in sterling would carry little or no advantage, inasmuch as Canada regularly remits large sums to the United States in payment of interest on Canadian bonds, to say nothing of the fact that 42 per cent of Canadian exports last year, and 60 per cent of imports, were with the United States.

§—Travel lira, 4.75c. †—Nominal quotations. ¶—Free rate. **—Official rate.

Security Statistics

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

1938 Indexes High	1938 Indexes Low	No. of Issues	(1925 Close—100)	1939 Indexes High	1939 Indexes Low	Jan. 7	Jan. 14	Jan. 21
77.8	44.2	316	COMBINED AVERAGE	73.1	68.9	71.9	70.0	68.9
133.9	88.5	5	Agricultural Implements	116.5	107.7	114.7	108.8	107.7
47.9	24.7	6	Amusements	43.2	40.2	42.5	41.7	40.2
92.3	43.1	15	Automobile Accessories	92.3	87.4	89.8	88.5	87.4
14.8	7.0	12	Automobiles	12.8	12.0	12.6	12.1	12.0
182.7	75.2	11	Aviation (1927 Cl.—100)	182.7	157.8	164.8	170.3	157.8
16.1	8.9	3	Baking (1926 Cl.—100)	14.1	12.9	13.8	13.5	12.9
203.3	120.2	3	Business Machines	183.9	171.7	183.3	176.5	171.7
177.5	111.6	9	Chemicals	168.2	158.9	166.5	158.9	161.0
50.2	25.6	20	Construction	47.5	43.5	47.2	45.0	43.5
246.2	173.8	5	Containers	242.6	222.3	233.6	224.3	222.3
129.6	60.0	9	Copper & Brass	118.6	106.5	114.5	109.9	106.5
28.0	21.8	2	Dairy Products	24.3	24.0	24.1	24.0	24.3
27.4	12.2	8	Department Stores	23.3	22.2	22.6	22.2	22.4
65.5	40.1	7	Drugs & Toilet Articles	49.4	46.2	48.4	46.5	46.2
329.0	158.1	2	Finance Companies	312.0	275.7	307.6	289.0	275.7
81.1	33.3	7	Food Brands	82.8	81.1	82.8H	81.3	81.1
35.3	20.5	3	Food Stores	37.9	34.4	36.6	37.7	37.9h
72.1	36.9	4	Furniture & Floor Covering	72.1	67.1	70.5	69.2	67.1
1262.1	953.7	3	Gold Mining	1271.0	1239.5	1258.4	1239.5	1271.0h
32.1	21.1	6	Investment Trusts	28.1	26.3	28.1	26.8	26.3
223.7	140.7	4	Liquor (1932 Cl.—100)	193.1	177.6	185.7	182.1	177.6
138.0	77.6	9	Machinery	129.0	119.9	123.6	121.8	119.9
85.8	49.1	2	Mail Order	83.7	79.1	81.8	79.1	79.6
56.5	36.5	4	Meat Packing	51.1	48.0	48.8	48.3	48.0
195.9	116.0	14	Metals, non-Ferrous	173.6	161.7	173.6	164.5	161.7
14.0	5.8	2	Paper	13.5	12.4	13.0	12.6	12.4
113.0	76.2	24	Petroleum	100.9	96.4	99.9	96.9	96.4
65.6	38.8	18	Public Utilities	59.6	58.6	58.9	58.7	59.6
18.9	10.3	4	Radio (1927 Cl.—100)	16.1	15.2	16.1	15.3	15.2
61.6	28.2	9	Railroad Equipment	61.6	54.8	58.3	56.8	54.8
18.6	10.6	22	Railroads	18.1	16.3	17.7	16.9	16.3
9.5	4.7	2	Realty	7.9	7.1	7.9	7.4	7.1
82.7	36.1	2	Shipbuilding	82.7	69.3	76.6	74.7	69.3
106.5	55.2	13	Steel & Iron	99.0	90.8	98.1	94.9	90.8
25.7	17.4	2	Sugar	20.1	18.4	20.1	18.4	18.4
169.1	118.6	2	Sulphur	153.2	141.8	148.4	144.2	141.8
60.0	37.6	3	Telephone & Telegraph	51.3	50.0	50.0	50.2	50.1
49.7	27.9	4	Textiles	45.0	42.5	44.8	45.0	42.5
20.6	10.0	4	Tires & Rubber	20.0	18.0	19.2	18.0	18.1
86.1	63.8	4	Tobacco	85.9	84.8	85.9	84.8	85.4
39.8	15.6	4	Traction	34.5	32.8	32.8	34.5	34.4
243.3	146.0	4	Variety Stores	226.3	215.5	216.8	218.4	226.3
.....	.....	20	Unclassified (1938 Cl.—100)	100.8	97.5	100.8	99.3	97.5

h—New HIGH since 1937. H—New HIGH record since 1931.

DAILY INDEX OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, Jan. 9	72.52	150.19	32.50	105.87	104.49	1,099,630
Tuesday, Jan. 10	72.66	150.48	32.46	106.07	104.96	713,150
Wednesday, Jan. 11	72.40	148.65	31.39	104.85	103.63	915,690
Thursday, Jan. 12	72.02	147.33	31.08	104.60	102.36	1,362,830
Friday, Jan. 13	72.02	146.52	30.94	103.29	102.17	843,780
Saturday, Jan. 14	72.17	148.26	31.95	104.07	102.84	469,630
Monday, Jan. 16	72.30	148.26	31.68	104.19	103.48	666,160
Tuesday, Jan. 17	72.32	148.93	31.88	104.31	103.21	823,730
Wednesday, Jan. 18	72.44	148.99	32.01	104.71	104.00	628,160
Thursday, Jan. 19	72.67	149.47	32.11	104.93	103.91	887,040
Friday, Jan. 20	72.61	149.11	31.97	105.22	104.43	739,690
Saturday, Jan. 21	72.31	146.76	31.10	104.36	103.04	657,830

STOCK MARKET VOLUME

Week Ended Jan. 21	Week Ended Jan. 14	Week Ended Jan. 7
4,402,160	5,404,710	5,808,130
Total Transactions year to Jan. 21	Same Date 1938	Same Date 1937
15,615,000	17,876,091	46,843,340

COMMENTS

On a diminishing volume of transactions, our Combined Average of 316 common stocks has sagged for three consecutive weeks to a level about 4 points under the December 31 top. By Jan. 21 the Index had reacted to its Dec. 24 benchmark; but was still 1.8 point above the low of Dec. 10. The movement of our weekly Index thus far this year has about paralleled that of our daily Index, and so afforded no technical clue as to the short term trend. Pretexts for the current reaction are a mild recession in general business activity and rather unfavorable foreign developments.

* * *

During the fortnight ended Dec. 21, two groups displayed long term technical strength by establishing new highs for more than a year. Gold Mining issues reached the best level since Nov. 7, 1936, in response to the President's request for an extension of the statute permitting further devaluation of the dollar, and because the removal of Schacht from the presidency of the Reichsbank points to the possibility of more rapid inflation in Germany. Food Store stocks, under a belief that political attacks against the chain stores have about run their course, advanced to the best average level since Sept. 4, 1937.

* * *

Amusements, Dairy Products, Food Brands (due largely to further strength in Loft), Public Utilities, Telephone & Telegraph issues, Tractions and Variety Stores (which latter would also benefit from an abatement in anti-chain store legislation), displayed short term technical strength by advancing against the market or holding above their Dec. 24 benchmark. Amusements were helped by dismissal of a stockholder's suit against Loew's management and action of the trial judge in commending the business ability and integrity of the Company's officers and directors.

* * *

Groups displaying technical weakness, by declining to their Dec. 10th, or prior, benchmarks, include Sulphur, which sank to its lowest level since June 18; Agricultural Implements, Drugs and Toilet Articles, Finance Companies, Liquor and Nonferrous Metals, which declined to their lowest levels since Sept. 24; Tires and Rubber, lowest since Oct. 1; Shipbuilding, lowest since Nov. 26; Copper and Mail Order, lowest since Dec. 3; Aviation, Containers, Machinery and Steel & Iron, lowest since Dec. 10.

* * *

Generally speaking, securities of good investment rating have held up much better during the past fortnight than issues of a more speculative character. Practically all sections of the bond market—even second grade rails—displayed strength; though German external loans were conspicuously weak.

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Answers to Inquiries

(*Continued from page 448*)

less, if business recovery follows through, as now expected, earnings should reach a level high enough to justify a satisfactory disbursement on the capital issue. Naturally, the stock cannot be depended upon for income, but we believe the shares represent an attractive price appreciation medium. Assumption of a further commitment, however, depends upon whether or not additional purchases would over-balance your portfolio.

Electric Boat

Thanks to your report last May I held my 100 shares of Electric Boat and have seen it double in value since then. What is your judgment now? Is this stock, with its small floating supply, likely to move considerably higher reflecting the rearmament races here and abroad?—F. B., Detroit, Mich.

Electric Boat Co. has on hand at present orders from the U. S. Navy for eight submarines which are to be delivered over the next three years. It is anticipated that this will keep the company at close to capacity operations for the duration of that period. As yet, no report for 1938 is available although operations probably produced earnings about on a par with 1937 when the equivalent of 68 cents a share was earned on the capital stock. Since the company, in a small way, manufactures small pleasure crafts, as well as electric motors and generators, diesel engines and other marine equipment, operations may also benefit from the recent uptrend in industrial activity. However, this source of revenue is so small as not to influence average earnings very much. Thus, the future of Electric Boat is tied up closely with the rearmament programs now under way. There are outstanding only 752,726 shares of common $3 par capital stock. No funded debt precedes this, nor is there any other class of stock outstanding. As the company always maintains a strong financial position, earnings are usually paid out to stockholders in the form of dividends. During 1938, the 60-cent disbursement was made as it was in 1937 and 1936. Naturally, the small number of shares outstanding causes wide fluctuations in the market price of the shares. However, the good outlook for the concern justifies a constructive longer term attitude, and where the speculative nature of the shares is realized, retention may be counselled.

Armour & Co. of Illinois

At this time would you advise holding 300 shares of Armour of Illinois common which cost me 12½? I would appreciate your opinion in view of the loss reported for the fiscal year ended October 29 and the accumulated dividends owing on the preferred stock.—R. T., St. Paul, Minn.

Volume sales of Armour & Co. are expected to improve due to larger livestock shipments and increased demand. Profit margins should also widen during the near future because of better conditions surrounding the industry as a whole. Since the fiscal year ended October 31, 1938, meat and livestock prices have gradually declined, due to seasonal influences. It is believed that Armour is accumulating inventories at these prices and expects to dispose of them later on in the current year at a satisfactory profit. For the fiscal year ended October 31, 1938, a loss of $1.21 a share was recorded against earnings of 63 cents a share a year earlier. This sharp reversal in operations may be attributed directly to unfavorable meat prices as well as inventory write-offs which were necessary. Given any stability of prices, profitable operations would be assured. Armour has recently been handicapped by labor troubles although an early solution to these is expected. Given any sustained improvement in business in general accompanied by larger consumer purchasing power, demand for meat and other products manufactured by Armour should increase accordingly. As profit margins are expected to be good, earnings should be witnessed during the current year. Naturally, the preferred arrears constitute a problem. It is believed, however, that there is an excellent possibility of clearing up these overdue payments. This would, of course, pave the way for common disbursements if earnings are as good as now expected. In any event, we can see little incentive to disturb your holdings at present depressed levels and suggest retention of your holdings, at least, temporarily, on a price basis.

American Locomotive Co.

In view of the great percentage of old-fashioned rolling stock still on hand, shall I retain 100 shares of American Locomotive common which I purchased for appreciation at 57¼? Is this stock again due to regain its leadership in the railroad equipment field?—T. F., St. Louis, Mo.

Rigid economies were put into effect by American Locomotive during the final half of last year. Therefore, even though dollar sales were not as large as those of the first half, it is anticipated that the deficit for the six months ended December 31, 1938, was not as large as the $2.70 loss registered in the initial half. No substantial uptrend in orders is anticipated for the company for some time to come, even though the railroad outlook is a little more hopeful at this writing. Of course, the fact that railroad companies have not made any new purchases for quite some time, thus having depleted their rolling stock, is of favorable significance. Given any sustained uptrend in business, purchasing power of railroads could increase and the necessity for new stock is so great that orders would be placed quickly. Alco Products, a subsidiary of American Locomotive, is not expected to afford much revenue for the parent company for some time. This branch of the company is engaged in the manufacture of oil refining equipment. Thus, the unsettled current position of the petroleum industry precludes any large earnings. Given normal conditions, American Locomotive could show substantial profits. From 1930 through 1936, deficits were recorded, but in 1936, a sharp reversal was registered, and a profit of $4.75 a share of common was shown. Thus, the presence of deficit operations for 1938 — while not satisfactory — is neither startling nor upsetting when it is considered that the company can register such a quick reversal. Any sustained improvement in general business which would bring about better conditions in the railroad industry would be of favorable significance to American Locomotive. In view of the large arrears on the preferred (currently about $34 a share) there is little hope for common dividends. In any event, the common shares at present low quotations seem to have taken fully into consideration the speculative nature of the future and we are

therefore counselling retention of your holdings as a price appreciation medium.

Tennessee Corp.

Have you reason to believe that Tennessee Corp. is headed higher marketwise? My shares were purchased at 12⅝ in 1936 for long pull appreciation. Kindly have your analysts appraise this stock's possibilities. Are dividends likely to be resumed this year?—A. C., Cincinnati, Ohio.

Any improvement in the market price of Tennessee Corp. stock will probably await a more clearly defined earnings outlook. The company's next seasonal period is, of course, the spring when fertilizers are purchased for "new broken" ground. At this writing, it is anticipated that fertilizer consumption will be smaller than a year ago and that mixed goods and materials will probably suffer from weakened price structures, and while it is anticipated that copper and sulphuric acid sales will show a slight improvement, earnings cannot show any marked uptrend unless fertilizer sales are good. Due to crop and acreage control projects, the longer term outlook of Tennessee is extremely uncertain. The majority of the company's revenues is derived from the manufacture of super-phosphate and complete fertilizers, supplemented by sulphuric acid. A small amount of revenue is derived from copper and iron sinter and related products, although these serve only to reduce costs of primary operations. The latest earnings report available is for the six months ended June 30, 1938, when a profit of 42 cents a capital share was reported. Final half year earnings are estimated to be in the same neighborhood and profits of around 40 cents for the full year are expected. The latest balance sheet report of the company is as of the year ended December, 1937, when total current assets were $4,974,367 against total current liabilities of only $1,207,510. This represents a working capital of $3,766,857. Even in the face of this strong financial position, there is little likelihood that dividends will be resumed at an early date. The absence of any concrete evidence which would signify that a substantial earnings improvement could take place, makes the shares of Tennessee Corp. speculative. Some consideration must, however, be given them because of the low prices for which they are currently selling. Thus, we suggest retention of your holdings awaiting a betterment in the general securities markets.

National Supply Co.

Is National Supply common in a position to make a sharp come-back and show earnings which would compare favorably with those of 1937 when $4.90 a share was earned? I understand the stock has tremendous leverage. Would you average on 100 shares which cost me 38½?—V. S., Los Angeles, Cal.

Although the export business of National Supply Co. was at record levels during 1938, the sharp drop in domestic demand for oil well equipment more than offset this and it is anticipated that nothing was earned on the common issue for the full year. For the nine months ended September 30, 1938, a net deficit of 40 cents a common share was recorded against earnings of $4.83 a

share a year earlier. During the latter part of December, 1938, oil and gas well completions recorded a slight improvement. Previous to that they had been about 15% under year earlier levels. Moreover, there has been a moderate gain in takings of oil field equipment. In any event, we believe that the oil field activity has seen its low point and that from now on, there should be moderate improvement. Thus, as soon as crude oil prices respond to expected betterment in demand, the earnings trend should be definitely upward. Preceding the 1,155,517 shares of common $10 par stock are 226,404 shares of 5½% cumulative convertible preferred, 64,687 shares of 6% cumulative, non-convertible and 279,548 shares of $2 cumulative convertible preferred shares. Thus, the common shares are subject to a substantial leverage factor. However, this complex capital set-up tends to restrict dividend payments on the common. Given any sustained improvement in the oil industry, however, operations of National Supply would undoubtedly result in a profit sufficiently great to justify a disbursement on the junior equity. The company's leading position as a manufacturer of equipment and supplies for the drilling of oil wells and also as a maker of diesel engines, assures them of satisfactory participation in any general improvement in business. As a longer term holding, therefore, we are inclined to advise retention of your common shares believing that price appreciation is definitely possible from present depressed levels.

What Will Be Inflated— If Anything?

(*Continued from page* 418)

to induce a more nearly normal rate of private spending and investment.

Meanwhile, any really important inflationary results this year appear improbable. Barring general war, a major rise in commodities is out of the picture for at least some time to come because our productive facilities are tremendous and are now engaged at nowhere near capacity. Regardless of money supply, the economic supply - demand factors point to a continuing buyers' market. In highest grade bonds something of a ceiling is indicated, so that the inflationary effects of a mounting total of investment funds are likely to show up this year in rising price trend for bonds of less than prime quality and for income-producing stocks both preferred and common. Speculative stocks and bonds are more responsive to the trend of business and corporate earnings than to money supply and interest rates. Such securities will be "inflated" this year only to the extent that business volume and profits are "inflated." In this sense, the chances are that we shall have a pleasing inflation of common stocks before the year is out.

Baldwin Locomotive—

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months of 1938 were $23,477,000 versus $31,154,000 in 1937 and shipments were $33,738,377 versus $36,701,195 in 1937. Unfilled orders as of November 30 were $13,663,000 as compared with $23,754,000 January 1, 1938, reflecting the falling off in railroad buying.

Current assets as of December 31, 1937, were $22,860,000 including $5,000,000 cash, as against current liabilities of $10,500,000 including $4,500,000 in bank loans, though the latter are reported to have been entirely paid off during 1938. Among the company's investments are 100,800 shares of General Steel Castings Corporation and 17 acres of real estate in Philadelphia, the latter carried on the books at $4,000,000. This parcel was the original plant of old Baldwin. Today the modern plant at Eddystone, Pa., contains 489 acres and has a capacity of 1,500 locomotives a year.

While no one can forsee the future and all markets have sinking spells, the long-term outlook for heavy industry is favorable and it is generally believed that we face a bull market of perhaps several years duration. Baldwin's profit in 1937 was the first in several years and the depression years showed heavy deficits. Notwithstanding, the V. T. C.s at current prices represent a stake in a well-balanced company that bears ample indication of being headed for better times. As a low-priced speculative stock Baldwin naturally has risk but it also has unusual promise. The big money in common stocks is not necessarily made when they are showing substantial earnings. It is made by buying when the earning trend first definitely changes.

The Base for 1939 Prosperity

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many years, certainly above 1937.

But consumer purchasing power is not the whole story. Spending for durable goods is also a matter of need and taste. For example, the Department of Commerce estimate for last November, latest available at this writing, showed total national income payments about 13% greater than in January, 1936, and total income of employees about 8% greater than in January, 1936. Trend of business and payrolls having been up from November to date, the gain in current purchasing power over that of January, 1936, is undoubtedly somewhat larger than shown by the official November estimates. Yet retail demand for some types of consumer goods, while rising, remains well under the level of January, 1936. This is true of automobiles and even more markedly true of mechanical refrigerators. The answer very likely is that heavy sales of automobiles in the years 1935-1937 have reduced potential replacement needs, lowering average age of cars in use as compared with three or four years ago. As for refrigerators, the phenomenal expansion of sales in recent years necessarily implies slackening rate of growth for the future.

Yet the average American is "automobile conscious" in amazing degree and "gadget minded" in general —and this is not a good season in which to get a really accurate gauge of the year's potentialities in either automobiles or refrigerators. We shall have a more revealing test when spring brings seasonal rise in demand. While motor output this year probably will not come up to that of 1936 it figures to better that of last year by around 40% and it may be as much as 50%. It will in any event represent a vital support to total business activity.

In relation to total volume in consumers' durable goods, it is not important that some products fail to

meet the demand of 1936 or 1937, provided other products come forward. There is no reason to assume that the average consumer will save an abnormal proportion of his income this year. Therefore what he does not spend for an automobile or a refrigerator will be spent for something else. Obviously, part of the shift in consumer spending represents increased investment in dwellings and all that goes with a new home, including floor coverings, furniture, heating apparatus, etc. The upward building trend is, of course, generally favorable to makers of refrigerators, although new homes have constituted a rather small proportion of the total market for this product in recent years.

Physical volume of trade in consumption goods this year, including department store sales, probably will be close to that of 1937. Railroad car loadings, helped by construction, ought to be close to the 1936 average, with a gain of 15 to 20% over 1938. In foreign trade, imports this year are likely to increase substantially more than exports, reducing so-called favorable trade balance shown last year. New all times highs will be made in the consumption of rayon, tobacco products and electric power.

In summary, we appear to have the makings of a year of rather good business—and perhaps of surprisingly good business.

The Investment Clinic

(*Continued from page 437*)

stake in the steel, electrical equipment, merchandising, machine tool, non-ferrous metal, chemical, building and installment financing industries. Actually, however, the industrial diversification is even broader. For example, expanding automobile production and sales promise to be reflected in the earnings of both Inland Steel and Commercial Investment Trust. Shipbuilding and other national defense preparations will benefit Crane, General Electric, International Nickel and Bullard. These same companies also promise to be leading beneficiaries in industrial construction and utility plant expansion. Crane, International Nickel, General Electric and Holland Furnace will share the vigorous revival indicated for residential construction. The reader may note a singular emphasis on companies identified with the heavy or capital goods industries. Such emphasis is based on the assumption that business recovery if it is to attain proportions worthy of the name must inevitably broaden to include most of those heavy industries which thus far have lagged.

In selecting the various companies, the choice was not confined to the leading organizations in their respective industrial fields. Although some companies, such as Bullard, Inland Steel and Holland Furnace, may be outranked in size and scope, *all* of them are companies which invite well founded confidence in their ability to garner a profitable share of the business volume in their particular fields. Their success in this respect has been adequately borne out by their record under normal business conditions in the past. Subject only to the recognized investment risks attendant upon commitments based on a somewhat longer term business forecast, these issues promise important price appreciation and increased dividend participation.

A New Future Dawns for Oil

(*Continued from page* 421)

the kind of oil which made Edison famous.

The investor who wishes to participate in the coming growth of oil company profits should watch all news regarding the control of crude oil production and should have the courage to act while security prices reflect uncertainty, rather than growing assurance of coming prosperity. It may be true that the time has not yet come when the oils should be bought on margin but there can be little doubt that the oils should be bought for investment, unless the year 1939 is to be another 1937. Total stocks of all liquid products are about the same as a year ago, while stocks of gasoline are six million barrels smaller and demand goes surging ahead to the accompaniment of prices which can only trend upward.

For Profit and Income

(*Continued from page* 441)

panies were given plans and carte blanche by the government, in an emergency they could turn out 500 planes a month. * * * General Tire & Rubber for the year ended November 30 earned $1.97 on the common as compared with $1.24 in the same period a year ago. * * * The first of 250 fast Lockheed bombers for the British Air Ministry was flown from Burbank, Calif. to New York in twelve hours for shipment to England. * * * The date of the next European war scare is thought to be around February 11th. * * * What the Supreme Court decides about the Fansteel Company case, argument of which was recently completed, will have an important bearing on possible amendment of the Wagner Act. * * * The stock market frequently goes dull a few days prior to the U. S. Steel report due January 31, awaiting the report and the dividend action on the preferred. * * * London reports speak of possible further curtailment of copper production by the foreign cartel. * * * Allis-Chalmers' bookings after a long decline are again trending upward. * * * Despite the decline in bank loans and discounts those of Bank of America increased $43,000,000 over 1937. * * * Bellanca Aircraft Corp. has signed a tentative contract calling for the sale of 200 bomber planes to China at an estimated cost of $8,300,000.

As the Trader Sees Today's Market

(*Continued from page* 439)

Each publication of this chart has been accompanied by at least a word on the inadvisability of relying on it to the exclusion of the judgment necessary in using any market tool. The warning will bear repeating. The ratio can be defined as a confidence line, rising when the outlook becomes favorable and falling when clouds appear. There must be certain times when extreme optimism or confidence will be justified and other times when the pessimism expressed by a low ratio will also prove the correct attitude, with business later to follow the downtrend. Spotting the major turns of this sort is not the true province of the Business-Market Ratio. Its usefulness is in orientating the position of the moment in respect to the long-term trend currently in force. Confined to its proper sphere the Ratio has an uncanny ability to pick the intermediate tops and bottoms.

Low Priced Stocks for Appreciation

(*Continued from page* 444)

issue of $8 preferred stock, utilizing for these several purposes, the funds realized from the sale of 442,434 shares of $5 preferred stock. There is also an issue of 278,309 shares of $6 preferred stock, ahead of the 3,982,031 shares of common stock. Current assets at the end of 1937, including nearly $10,500,000 cash, amounted to $40,716,495, while current liabilities were $14,431,244.

As a unit, Pure Oil is a thoroughly rounded organization, represented in all phases of the oil industry. Par-

ticularly important is the possession of large crude oil reserves, estimated to be between 300,000,000 and 400,000,000 barrels. This huge supply is carried at a very conservative figure in the company's books.

With the restoration of more stable conditions in the oil industry, accompanied by improving demand for refined products, Pure Oil should experience no difficulty in staging a prompt recovery in earnings. That the latter event may occur in the comparatively near future would appear to be sufficiently well assured to lend speculative merit to the shares.

As I See It!

(*Continued from page* 411)

railways in an extremely difficult mountainous terrain unsuited to military operations. Then too, the Poles and Hungarians had cut off their roads to this district, further increasing the obstacles, and making it impractical for use by the Nazis.

Therefore, the quickest and easiest way to Rumania and the Ukraine was south through Hungary, or north through Poland. With a little luck Hitler could accomplish both his objectives.

That he seems to have made considerable headway in gaining his ends is apparent from the recent announcement that Hungary has joined with Germany, Italy and Japan in an anti-communistic pact. The intimation that Colonel Beck had adjusted his difficulties with Der Fuehrer would also seem to indicate progress in Poland as well (in spite of the suggestion that the astute Beck may be playing the Nazis against the Soviets).

In the meantime, Germany has been violently attacking King Carol, inciting the Rumanians to assassination of their ruler, and is very active over the border in Ruthenia where the Nazis are supplying machine guns and rifles in every village. That she is busy with propaganda is indicated by the busses going through loaded with young Nazis who are dropped off in little villages and towns in the campaign to intimidate and incite to rebellion.

At the same time, Hitler has also taken many steps in the direction of the Ukraine; and one of the most strategic was to instigate the demand for freedom by the Ukrainian Deputies in the Polish Diet.

Thus, using the tail of the Ukraine (which is in Carpatho-Ukraine in Czechoslovakia) as a base, fomenting trouble in Poland with its 800,000 Ukrainians and in Rumania with its large minority of 500,000, he is at the same time stirring the Soviet Ukrainians to demands for autonomy from Soviet Russia, just as he backed the Sudetens against the Czechs. Already Hitler has manoeuvered himself into a position where he has an important bargaining weapon in dealing with Russia.

Der Fuehrer's great show of cordiality recently to the Russian Ambassador, whom he disdained to receive when he first arrived in Berlin, indicated negotiations were going on.

It is significant that the Nazi controlled press, one of the mainstays of the German technique, has laid off its abuse of Russia since the Munich conference. At the same time, the Russians are also notably quiet about Germany in their press.

While the Nazi press has been attacking the English, it has been patting the French on the back during this period. It is France who has an alliance with Russia, and could be very useful to the plans of Hitler.

Is that why Der Fuehrer was so lukewarm to Mussolini's Mediterranean demands? (Or is it why Il Duce made these demands, to find out what was brewing between Hitler and Daladier?) The French press hasn't hesitated to reflect discredit on the Italian Navy, and the fighting quality of their soldiers—with the impunity that implies inside information that no help would be forthcoming to Il Duce from Hitler at this time.

At any rate Hitler is very busy these days, and very benign. He did not oust Schacht in anger, but rather deliberately—as if he had completed a set task, and there was nothing more for him to do. And yet without Schacht there will be no capital market for Germany in London. At the same time Hitler replaces Schacht with Dr. Funk, who disclaims the need or advantages of a trade deal with the U.S.A., which up to now Germany has been desperately seeking in the hope of correcting her unfavorable balance of trade. What then has taken the place of England and the U.S.A.,

In The Next Issue

An 80 Billion Dollar Income Is Attainable

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Chain Store Prospects with Political Pressure Off

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Who Will Make the Money in Shipbuilding?

unless it is Russia? Germany's need for raw materials and markets can be fulfilled in Russia. Russian necessity of first class economic and industrial brains can be satisfied by Germany.

Stalin can't go on forever liquidating the opposition, while there are fabulous profits to be made out of developing Russia—enough to satisfy a dozen Hitlers and Stalins. Their ideology is the same, differing only in method. You wouldn't let a little thing like "method" stand between friends, or rivals, when there is plenty of money to divide!

While it is true that for centuries the Germans have been using every intrigue and exhausting every possibility to gain control of Russia economically—and historically the Russians fear the Germans — I still believe that bandit Stalin is likely to let gangster Hitler muscle in, each with a mental reservation to double-cross the other whenever he can. It is very similar to the necessity which brought the Rome-Berlin axis into being.

Are then the Nazis to win the great economic prize of the age—the exploitation of Russia's vast natural resources for which the English have been angling since 1918? For with European trade steadily shrinking—with Japan reserving China for herself—the cream off of South America—the vast area of Russia is the only area in the world open to exploitation today.

That France will get her share in the deal is already evident by the heavy withdrawal of French funds from London. Hitler seems to have succeeded in dividing France and England. The French feel that England failed them in every crisis dating from Chamberlain's visit to Berchtesgaden; while the English feel that the French failed them at the time of the sanctions during the Ethiopian affair. Then too, they hold the French responsible for the rise of Hitler because of their impossible demands on Germany and their unwillingness to cooperate with the Weimar Republic.

The war, therefore, is only beginning in real earnest, but it will not be fought out on the battlefields. It will be an economic war—which will call on labor and industry to get together in the democracies if they are to win out against the onslaught by totalitarian control of man power, industry, credit and exchange.

I cannot figure exactly the position of the United States in this picture. President Roosevelt has been conciliatory as far as Russia is concerned, and we have been continuing to buy silver from the communist Mexican government. What significance, therefore, can we attach to the sending of a Mexican ambassador to Germany at this time unless it is a conciliation between the two forces of nazism and communism right at our back door.

All we can do, therefore, is to await Hitler's speech (scheduled for January 30) to disclose whether Chamberlain's peace at Munich has paved the way for such a sensational Nazi victory.

The Magazine of Wall Street's Common Stock Price Index

(*Continued from page* 446)

entire calendar year. If merged with another company, securities received in exchange are substituted. If de-listed, over-the-counter prices are used until the next year, when we drop the stock.

The Price Index is compensated, by customary methods, for all stock dividends, split-ups and rights which are valued at 10% or more of the stock's market price immediately after selling "Ex."

It should be noted that the "Unclassified" group, made up of issues which could not be assigned logically to any of our standard industrial sub-groups, is based each year upon closing prices of the preceding year as 100, and not linked back to 1925 closing prices as are most of the other groups. For this reason, High and Low records of the Unclassified group for the preceding year are left blank in the regularly published tabulation.

Secular Movements

The accompanying tabulation of Secular Group Movements presents a rather interesting epitome of the broad swings in the Combined Average and its component industrial sub-groups from the pinnacle of the 1926-9 boom, down to depression depths, up through the slow 1932-8 recovery, down to 1937 closing prices (which were practically at the lowest level of the latest market slump), and up again to 1938 closing prices. The two most striking characteristics of this spectacular record are the universality with which stocks succumb to a major decline in the general market, and the great irregularity of recovery.

Six groups — Containers, Finance Cos., Gold Mining, Meat Packing, non-ferrous Metals and Variety Stores — sold higher during the recovery than the peaks reached during the 1926-9 boom. Fourteen groups, mostly in the consumers' goods field, by the end of 1938 were still more than 80% below their 1926-9 peaks.

Obviously it will well repay investors to study long range industrial trends and to gauge their commitments accordingly; though there are always individual companies which fare much better or worse than the industry as a whole.

One of the most encouraging lessons to be learned from such a study of secular movements is that, New Deal or Old Deal, fresh opportunities for the discerning must continue to open up in the future, as they have in the past—so long as there are stocks and bonds to buy and sell.

Happening in Washington

(*Continued from page* 423)

export trade and huge accumulation of government-owned cotton, may win Administration support for a new plan to limit acreage and subsidize domestic price while stimulating exports.

Housing legislation probably will be confined to minor revisions and extensions of present laws unless Administration idea-men hatch some of the schemes for reducing construction costs which they have been playing with for a long time. U S H A may get authorization for some more slum-clearance subsidies, but not as much as asked, as this money goes out very slowly and not much has been spent yet. Continuation of F H A guarantee of bank loans for property improvement probably will be voted plus increased total limit on F H A mortgage insurance liability and minor liberalizations in its law.

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